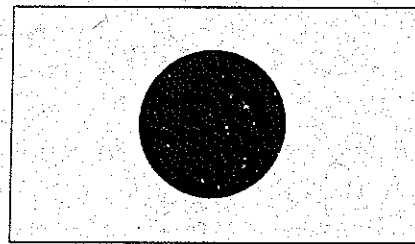


FIRST ANNUAL REPORT
of the
U.S.-JAPAN WORKING GROUP
on the
STRUCTURAL IMPEDIMENTS INITIATIVE



May 22, 1991

The Honorable George Bush
President of the
United States of America
Washington, D.C.

His Excellency
Toshiki Kaifu
Prime Minister of Japan
Tokyo

Pursuant to the follow-up mechanisms provided for in the introduction of the Joint Report on the Structural Impediment Initiative (SII) of June 1990, the U.S.-Japan Working Group on the Structural Impediments Initiative (SII) presents the attached First Annual Report.

We believe that the attached report contains progress to date regarding the implementation of the measures of both governments listed in the Joint Report that should contribute to the reduction of payments imbalances. These measures should also lead to more efficient, competitive, and open markets, promote sustained economic growth and enhance the quality of life in both Japan and the United States.

During the course of the discussions toward the attached First Annual Report, the Working Group reaffirmed its determination to achieve the goals of the SII and ensure continued momentum of the follow-up process.

Robert B. Zoellick
Under Secretary of State
and Counselor

Koji Watanabe
Deputy Minister for
Foreign Affairs

Charles H. Dallara
Assistant Secretary of
the Treasury

Makoto Utsumi
Vice Minister for
International Affairs
Ministry of Finance

S. Linn Williams
Deputy U.S. Trade
Representative

Naomichi Suzuki
Vice Minister for
International Affairs,
Ministry of
International
Trade and Industry

J. Michael Farren
Under Secretary of
Commerce

Tsutomu Tanaka
Vice Minister for
International Economic
Affairs, Economic
Planning Agency

John B. Taylor
Member, President's
Council of Economic
Advisers

James F. Rill
Assistant Attorney General

FIRST ANNUAL REPORT
of the
U.S.-JAPAN WORKING GROUP
on the
STRUCTURAL IMPEDIMENTS INITIATIVE (SII)
Tokyo, Japan
May 22, 1991

TABLE OF CONTENTS

JOINT PRESS RELEASE

REPORT BY THE JAPANESE DELEGATION

- o Japanese Saving and Investment Patterns
- o Land Policy
- o Distribution System
- o Exclusionary Business Practices
- o Keiretsu Relationships
- o Pricing Mechanisms

REPORT BY THE U.S. DELEGATION

- o U.S. Saving and Investment Patterns
- o Corporate Investment Activities and Supply Capacity: Improvement of U.S. Competitiveness
- o Corporate Behavior
- o Government Regulation
- o Research and Development
- o Export Promotion
- o Workforce Education and Training

COMMENTS OF THE U.S. DELEGATION

COMMENTS OF THE JAPANESE DELEGATION

Annual Report of SII Follow-up
Joint Press Release

1. The U.S.-Japan Working Group on the Structural Impediments Initiative (SII) provides the attached Annual Report, which summarizes the actions taken towards fulfillment of commitments described in the June 1990 Joint Report. This report provides evidence of the efforts made by both parties at this stage to meet the objectives of the SII follow-up process.
2. The SII, which is the initiative of the President of the United States and the Prime Minister of Japan, represents a unique and extensive endeavor between the United States and Japan. It attests to the closeness of the ties between our two countries, and the importance and extent of the interrelationship of our two economies.
3. Both governments reaffirm their strong commitment to solve structural problems in both countries that stand as impediments to trade and to balance of payments adjustment; such actions should also lead to the removal of impediments to more efficient, open and competitive markets. They welcome progress made in reducing their respective current account imbalances and remain firmly committed to make efforts to reduce their external imbalances. The Working Group recognizes that success will depend on continued progress in implementing structural reforms and a strong and serious follow-up process.
4. Both the Government of Japan and the United States Government welcome the steps taken over the past year towards addressing structural problems in their countries. The Working Group notes that significant progress has been made in a number of areas. While acknowledging these positive measures already underway, both the Japanese and the U.S. sides of the Working Group stressed that further endeavors by both governments in their respective areas of SII are needed to ensure that the goals of the SII are achieved. Both governments are determined to strengthen their efforts towards this end. Each government has included comments indicating particular areas in which it has suggested further progress.
5. The Working Group reaffirmed the policy commitments contained in the Joint Report. The full range of actions contained in the Joint Report and in this Report, if fully implemented and followed up, should lead to a substantial and sustainable reduction in both countries' external payments imbalances and lead to more efficient, open and competitive markets. These structural reforms should also promote sustained, strong economic growth and enhance the quality of life in both Japan and the United States. The two governments believe that these actions will also benefit the world economy.

6. The Working Group reaffirmed its determination to take needed steps to achieve the goals of the SII and ensure continued momentum of the follow-up process. The SII Working Group remains committed to the follow-up procedures embodied in the introduction to the Joint Report. The Working Group will continue the meetings under the interagency structure of the SII in a flexible, open and evolving manner which is characteristic to the SII, and agreed to meet twice a year, most probably in spring and autumn and other times mutually agreed, at a level of Vice/Deputy Minister and Under Secretary/Assistant Secretary, and to produce its Second Annual Report in the spring of 1992.

REPORT BY THE JAPANESE DELEGATION

I . Saving and Investment Patterns

1. Reduction in the Current Account Surplus

Japan's current account surplus has been steadily declining as a result of factors such as firm growth in domestic demand and progress in structural adjustments, including the transfer of production capacities abroad by Japanese manufacturers. The ratio of the current account surplus to the GNP declined from 4.2% in 1986 to 2.0% in 1989, which is less than half the level of 1986, and made an additional sharp decline to 1.2% in 1990. The Government of Japan will continue to make efforts to reduce the current account surplus and strongly reaffirms its commitment to work actively toward that end.

2. Positive measures regarding Public Investment in the FY 1991 Budget

(1) Public Investment

(i) The Government of Japan launched the "Basic Plan for Public Investment", building on the principle to boost domestic investment, improve social overhead capital and to reduce the shortage of investment relative to savings and to the size of the Japanese economy, as mentioned in the Joint Report. The Plan includes an aggregate investment expenditure of approximately ¥430 trillion for the decade from FY 1991 to FY 2000. Firm implementation of public investment over the medium term based on the Plan, while giving due consideration to the balanced development of the economy, is expected to provide a base for sustainable non-inflationary growth led by domestic demand, and this would, along with other measures, facilitate a further reduction in the current account surplus.

(ii) In light of the fact that FY 1991 is the first year of the Plan, and as a steady first step toward fulfillment of the Plan, the Government of Japan has made the utmost effort in the FY 1991 budget and other programs to ensure sufficient amounts of public investment, notwithstanding the severe fiscal situation. Specifically, Public Works Expenditure in the general account has been increased by 6.0% with special attention being placed

upon categories closely linked to the improvement of the quality of life. Furthermore, in the Fiscal Investment and Loan Program, the expenditures of the public works executing agencies has been increased by 9.6%. In addition, with regard to the public investment efforts being carried out at the local government level, the Government of Japan envisages a 10% increase in local governments' public works expenditure for projects that are entirely self-financed under the Local Public Finance Program (Note 1).

(Note 1)

The Government will provide U.S. authorities with aggregate data on local governments' investments (urban and rural prefectures--Tokyo, Hokkaido, Osaka, Kyoto and the 43 other prefectures) at the earliest possible time.

(iii) As a result, Public Gross Fixed Capital Formation (Ig) in FY 1991 is forecast to reach approximately ¥28.9 trillion. Taking into account the possible addition of disaster relief expenditures (the simple average of estimated supplementary disaster relief expenditures corresponding to the Ig in the past ten years, ¥0.8 trillion), this represents an increase of approximately 6.4%.

In sum, public investment in FY 1991 is ensured to increase sufficiently for the first year of the Plan.

Also in FY 1991, the Government of Japan fully expects the four former public enterprises' (JR, NTT, JT and EPD) investment plans to provide for an increase of 11% to ¥ 2.8 trillion, which is in line with the expectation of approximately ¥25 trillion in aggregate investments by such entities for the coming ten years.

(iv) With regard to the public investment in FY 1992, the Government will focus on the continued progress toward fulfillment of the objectives of the Basic Plan for Public Investment. This would, along with other measures, facilitate the current account adjustment aim of SII.

(2) Sectoral Long-term Plans for Social Overhead Capital

(i) Regarding the eight sectoral long-term plans (Five-Year Plans) which expired at the end of FY 1990, the size for each of the eight new plans was determined, as shown in the table 1, with a view to ensuring the expenditure necessary to attain the specific targets indicated in the Joint Report of the SII (Note 2).

(ii) As a result, excluding the housing plan which sets a target in terms of numbers of house, the total cumulative expenditure for the seven plans to be renewed was determined to amount to ¥36.535 trillion, or 1.40 times that for the previous plans.

(iii) In addition, as to those plans which are being renewed in FY 1991, the expenditures for the plans in categories closely linked to the improvement of the quality of life such as parks, sewers and waste disposal are to be raised more than the expenditures for other plans in terms of percentage growth rate, as being compatible with the basic principles embodied in the Plan and the Joint Report of the SII that the share of public investment related to "living environment and cultural functions, " is to be raised. Moreover, for airports and seaports, sufficient expenditures are ensured so as to be consistent with "the Basic Plan for Public Investment" and the Joint Report of the SII. Priority will be given to improvement of infrastructure which will facilitate importation of goods and services.

(iv) It is envisaged that larger long-term plans for certain other key areas, such as roads, will also be formulated as the current plans expire on a scale similar to that for these plans.

(Note 2)

The current situation with regard to renewal of the eight sectoral long-term plans (Five-Year plans) which expired at the end of FY 1991 is outlined below.

Seaports	Cabinet Approval	Mar. 1, 1991
Airports	Cabinet Approval	Mar. 1, 1991
Housing	Cabinet Decision	Mar. 8, 1991
Sewers	Cabinet Approval	Feb. 22, 1991
Waste Disposal	Cabinet Approval	Mar. 8, 1991
Parks	Cabinet Approval	Feb. 8, 1991
Traffic Safety	Cabinet Approval	Feb. 8, 1991

The seven sectoral plans excluding the housing plan are scheduled to be decided by the cabinet by the fall of this year after completion of the necessary statutory amendment.

(3) Allocation of Public Investment

(i) Allocation of Expenditure for Public Works

In the allocation of Public Works Expenditure in the FY 1991 budget, the greatest possible attention was paid to those categories closely linked to the improvement of the quality of life by taking measures including the establishment of the Set Aside for Livelihood Improvement Related Expenditure.

In particular, as to the Set Aside for Livelihood Improvement Related Expenditure, ¥175 billion out of total ¥200 billion is allocated to Expenditure for Public Works with special emphasis in such categories as parks, sewers, public sanitation and housing.

As a result, expenditures in parks, sewers, public sanitation, etc. are ensured to increase in terms of the percentage growth rate compared to the previous year more than General Public Works expenditure.

(ii) Allocation of Expenditure for Public Facilities and Equipment Lined in Items Other Than Public Works

The greatest possible attention was also given to the categories closely linked to the improvement of the quality of life in Expenditure for Public Facilities and Equipment Lined in Items Other Than Public Works, as ¥25 billion out of the Set Aside for Livelihood Improvement Related Expenditure is allocated to Expenditure for Public Facilities and Equipment

Lined in Items Other Than Public Works.

(4) Allocation of the Fiscal Investment and Loan Program Funds

In the FY 1991 Fiscal Investment and Loan Program, the Government of Japan has allocated funds in a more effective way to improve social overhead capital, paying due attention to the enhancement of the quality of life. In this context, in addition to the promotion of housing construction, major steps have been taken to improve social overhead capital including roads and airports, as evidenced by the significant increase in the funds allocated to the airport improvement.

In allocating funds to government financial institutions, major importance is attached to lendings which would contribute to the improvement of social overhead capital, such as urban infrastructure and transportation. With regard to lendings to local governments, priorities are given to those lendings which would improve the quality of local life through the enhancement of social overhead capital.

3. Better Communication and Closer Cooperation among Ministries
Involved in Complex Multi-Jurisdictional Development Projects

The Conference for Coordination concerning the Facilities related to the Kansai International Airport was established in October 1984 to facilitate coordination among the related ministries so that the improvement of airport-related facilities, such as roads and railways, would proceed in line with the construction of the airport. At the third meeting held last December, adjustment of the timing of airport-related facility improvement work was discussed because of the rescheduling of the opening of the airport.

To facilitate better coordination among ministries concerning the Tokyo Bay Area Development, the Council to Facilitate Tokyo Bay Area Development has held eleven meetings since its establishment in November 1986.

4. Land Use, Deregulation, etc.

- (1) Based on the Priority List of Land Policies, announced on December 21, 1989, due consideration is being paid to the effective utilization of publicly held lands in metropolitan areas for urban facilities, urban development, and public housing projects, with necessary precautions to secure lands for public use.

To appropriately develop and effectively utilize the discharged track yard site in Shiodome in accordance with the land-use plan submitted by the Assets Disposal Council in February 1989, the Government of Japan is consulting with the Tokyo Metropolitan Government and other parties concerned. A city-planning decision concerning the new traffic system and related roads passing through the site was made last July. The Government of Japan will continue its coordination efforts with the parties concerned on such issues as city planning of land readjustment project in order to commence development early.

- (2) To facilitate the public use of super-subterranean space, the Prime Minister's Office and related ministries are conducting careful studies and consultation with experts on legal, safety, environmental, and various other aspects of the utilization framework.

- (3) As measures to provide incentives to the private sector to improve social overhead capital, the Government of Japan continues to guarantee the bonds issued by the Kansai International Airport Co. Ltd. and the Tokyo Trans-Bay Highway Corporation to facilitate the utilization of private funds. In addition, utilizing the fund raised by the sales of NTT stocks, the Japan Development Bank, the Hokkaido-Tohoku Development Finance Corporation, and the Okinawa Development Finance Corporation continue to promote interest-free loans to the third sector and have established a new concessional loan facility for third-sector and private-sector enterprises.

- (4) A third-sector entity, which will be the managing entity of the Jouban New Line, was established this March mainly by the Tokyo Metropolitan Government and three prefectural governments. The

involved local governments are performing research to draft the basic plan for the line and making other preparations.

In addition, to facilitate housing site development projects, the Government of Japan improved conditions for local governments and other public entities to make early and smooth acquisition of sites by amending the Ordinance to Enforce the Law for Promoting Increase of Public Lands in May 1990.

5. Private Consumption: Leisure Opportunity and Flexibility in Consumer Finances

- (1) As to curtailing work hours, the Government of Japan started in April 1990 a trial of 40-hour weeks for those government employees on shift work schedules to pave the road to complete five-day weeks for all government employees. The Government is working to facilitate shorter work hours in the private sector by promoting five-day weeks as well as providing guidance and assistance to efforts of labor and management to fully utilize annual paid holidays and promote the practice of consecutive holidays. The Government is also working to form a national consensus regarding these efforts.

It should be noted that the Government amended an ordinance at the end of last year to cut weekly legal work hours under the Labor Standards Act by two hours and enforced a 44-hour week starting April 1, 1991. In addition, the Government in July 1990 prepared Guidelines to Promote Consecutive Holidays, which provided outline of the tasks labor and management need to address to fully utilize annual paid holidays and promote the practice of consecutive holidays. The Government is working to make the guidelines widely known.

- (2) Based on the interim report of the Credit Industry Committee of the Council on Credit Sales, the Government of Japan will endeavor to introduce revolving credit function to the credit cards issued by bank affiliated companies, with the existing restriction on access to bank teller machines by credit card companies removed, within two years from the submission of the interim report in June

1990, after consultation with the parties concerned.

- (3) BANCS (city bank network) and other automated-teller-machine networks changed their closing time on Saturdays from 2 p.m. to 5 p.m. starting May 1990. Operations on Sundays are also spreading rapidly: BANCS and ACS (regional bank network) started this January and SCS (network of Second Association of Regional Banks) and SNCS (Shinkin bank network) started this February.

The operating hours of teller machines have been extended as described above. The Government of Japan welcomes business decisions of financial institutions to lengthen operating hours of their teller machines when they so decide based on their own commercial considerations as a contribution to consumer convenience.

Sectoral Long-Term Plans of Social Overhead Capital

Category	Previous Plan	Renewed Plan	Magnifi-	Target (excluding adjust- ment items)	Content of the Joint Report of SII
			cation		
Housing	3,300 (thousand houses)	3,700 (thousand houses)	1.12	approx. 95m ² (floor space per unit)	To increase average floor space per unit to approx. 95m ² in FY 1995, aiming at improving quality of housing stock (cf. average floor space per unit in 1988 was 89m ²)
Sewers	12,200 (billion yen)	16,500 (billion yen)	1.35	54% (sewerage service coverage ratio)	To increase sewerage service coverage ratio by approx. 10 percentage points during the period of the plan and to promote drainage programs, aiming at better urban environment (cf. sewerage service coverage ratio in March 1989 was 40%)
Parks	3,100 (billion yen)	5,000 (billion yen)	1.61	7m ² /person (park space per capita)	To increase park space per capita to more than 7m ² in FY 1995, aiming at better urban environment with full of greenery and amenity (cf. park space per capita in March 1989 was 5.4m ²)
Waste Disposal	1,910 (billion yen)	2,830 (billion yen)	1.48	84% (mid-80's) (waste treatment percentage ratio)	To increase waste treatment percentage ratio to the mid-80's in FY 1995, aiming at more hygienic and comfortable living environment (cf. waste treatment percentage ratio in March 1988 was 78%)
Traffic Safety	1,485 (billion yen)	2,015 (billion yen)	1.36	25,000km (sidewalks, etc.)	To construct sidewalks, etc. of approx. 25,000km in aggregate during the period of the plan, where current risk to pedestrian safety is high (cf. sidewalks, etc. in March 1989 were 99,712km in aggregate length)

Category	Previous Plan	Renewed Plan	Magnification	Target (excluding adjustment items)	Content of the Joint Report of SII
Seaports	4,400 (billion yen)	5,700 (billion yen)	1.30	30km (foreign trade terminal berths)	To construct berths for foreign trade terminal of approx. 30km in aggregate during the period of the plan, to cope with increased foreign trade cargoes and enlarged vessel size (cf. existing foreign trade terminal berths in March 1989 were 60km)
Airports	1,920 (billion yen)	3,190 (billion yen)	1.66	approx. 880 (index of aggregate runway length)	To increase the index of aggregate runway length as measured against population and land area to approx. 880 in FY 1995, and to initiate new construction of a substantial amount during the period of the plan in order to accommodate future aviation needs, with due regard to the levels in industrial nations. This would result in increasing aggregate runway length by 18% during the period of the plan (cf. the index of aggregate runway length in March 1989 was 742)
Seashores	1,000 (billion yen)	1,300 (billion yen)	1.30	54% (improvement ratio)	To increase improvement ratio of seashore which needs protection by approx. 10 percentage points during the period of the plan (cf. the improvement ratio in March 1989 was 40%)

II. Land Policy

Soaring of land prices would damage socio-economic stability and vigour since it would further widen the gap of economic strength existing both among individuals and among firms.

In view of the need to maintain vigorous economy supported by individuals with strong will to work, the land problem represents one of the most important domestic issues in Japan. Since land is a limited and precious resource for the Japanese people both at present and in future, it is an indispensable base to various activities of the Japanese people, and as such its specific nature will affect the public interests. The Government of Japan has been implementing various measures written in the Final Report of Structural Impediments Initiative (SII), through the Ministerial Conference for Land Policies and others in line with enactment of the "Basic Land Act" and based on the idea of the law.

With regard to the various measures expressed in the Final Report of SII, the Government of Japan has taken necessary measures designated below, and the Government of Japan made a cabinet decision of the "Outline of Promoting Comprehensive Land Policies" in January 1991 to carry out various measures comprehensively by a close coordination and cooperation together with relevant local government authorities, based on the report of Land Policy Council of October 1990.

Among these, the Government of Japan has set forth the following three issues as a purpose of land policy.

- (a) In order to avoid a further steep rise in land prices, the Government of Japan will seek to eliminate various factors which have produced the situation where the land is most profitable property.

(b) To reduce the land price to an adequate level where value of utilizing land deserves. In particular, the Government of Japan will pursue to attain an adequate level of residential land price so that middle class workers may accommodate an appropriate level of housing with reasonable financial burden.

(c) To ensure an adequate and reasonable utilization of land, in accordance with the plan, considering ensuring green and comfortableness of life in line with various conditions of region.

1. Promotion of further supply of housing and land for buildings in metropolitan areas

(1) Regarding the promotion of the supply of housing and residential land across two or more prefectures, the Construction Minister decided in March 1991 the "Fundamental Schemes regarding the Supply of Housing and Residential Land" about three major metropolitan areas based on the "Special Measures Law for Facilitating Supply of Housing and Residential Land in Major Metropolitan Areas" which was amended in June, 1990 and was enacted in November 1990. For example, the Fundamental Schemes set a goal that 4.31 million houses and 27,500 ha of residential land will be provided in Greater Tokyo area by the year of 2000.

In the future relevant prefectural governments, in conformity with the "Fundamental Schemes" above mentioned, will decide plans on the supply of housing and residential land.

(2) With regard to the establishment of a new system of identifying and promoting the utilization of idle and underutilized land, the Government of Japan established the "System of Specified District Designated for Promoting the Utilization and Conversion of Idle Land" which was enacted in November 1990, based on the amendments of the "City Planning Law" and the "Building Standards Law" in June 1990.

The Government of Japan set forth the guideline for identifying idle land and underutilized land for local governments to designate the "Specified District Designated for Promoting the Utilization and Conversion of Idle Land" in the city planning and notified local governments the guideline.

The Government of Japan will encourage local governments to use the "System of Specified District Designated for Promoting the Utilization and Conversion of Idle Land" together with strengthening the special land holding tax on idle land mentioned 2.(2)(c) below which has been started from FY 1991 so that idle land and underutilized land such as unused plant site, might be utilized more effectively.

2. Comprehensive Land Tax Reform

(1) The Government of Japan conducted a comprehensive review of the land tax system at all stages of holding, transfer, and acquisition of land, with the viewpoints of assurance of appropriate and equitable tax burden on land, and of contributing to an overall land policy in preventing speculative transactions and promoting appropriate land use through reducing or eliminating the advantage of land as an asset.

Based on the "Basic Report on Desirable Land Taxation" issued by the Government Tax Commission on October 30, 1990, the necessary bills were submitted to the Diet in February 1991. These bills were passed on 26 March, 1991 except for the "Land Value Tax Law", which was passed separately on 24 April.

(2) Main points of this land tax reform are followings and include all measures mentioned in the Final Report of SII(below b.c).

Although introduction of the Land Value Tax as a national tax was not specifically mentioned in the Final Report of SII, it is corresponding to the principle referred to in the Final Report of SII which emphasizes importance of pursuing appropriate tax burden on an asset of land. Introduction of the new tax means, in addition to the assurance of appropriate burden of the fixed asset tax which has characteristics of general and broadly based levy on land holding, new tax burden will be annually imposed on holders of land with large asset value.

Strengthening of general capital gain taxation on land while expanding preferable treatments of capital gain in case of land transfer conducive to certain policy objectives is based on the idea that it is most important from the land policy viewpoint to establish a stable land tax system and to reduce advantage of land as an asset, taking into consideration our past experience.

(a) Introduction of the Land Value Tax (in and after 1992)

(b) as for the agricultural land within the Urbanization Promotion Areas in the designated cities in the three metropolitan areas, except for the agricultural land in the " Productive Green Area " abolishment of the deferment system of payment of the inheritance tax (in and after 1992), and abolishment of the deferment system of payment of the fixed assets tax (in and after FY 1992)

(c) overall review of the special land holding tax and strengthening of the special land holding tax on idle land (in and after FY 1991)

(d) expansion of the preferable treatments of capital gain taxation in case of land transfer conducive to certain policy objectives such as securing land for public use and promoting supply of good residential land, etc. (in and after 1991)

(e) strengthening of capital gain taxation on land transfer except for the case referred in (d) (in and after 1992)

(f) countermeasures against tax avoidance (in and after 1992)

3. Greater utilization of idle and underutilized land owned by the central or local governments or other public land

(1) The Government of Japan examined the utilization of State-owned land in the major metropolitan areas (Greater Tokyo, Osaka and Nagoya Regions)(*) and collected findings of the examination.

It was concluded that, out of 2,260 pieces of land used for administrative purposes (5,057.6ha), 234 pieces of land (191.8ha) should be used more efficiently. Programs to improve the arrangement of buildings used for administrative purposes are in progress for 115

pieces of land (76.2ha) out of the 234 pieces of land. It was also concluded that, out of 2,556 pieces of land used for residence for employees of the Government (954.6ha), 750 pieces of land (165.8ha) should be used more efficiently.

The Government of Japan identified State-owned land to be used more efficiently. This include not only physically underutilized land but also land, from the viewpoint of promoting efficient use of State-owned land, not being used to match the pattern of land use in the neighborhood.

(*) All State-owned land in 7 major cities and State-owned land (more than 1000m² a piece) outside these cities, used for administrative purposes or for residence for employees of the Government at the end of FY 1989.

(2) In addition to the State-owned land (used for administrative purposes or for residence for employees of the Government) to be used more efficiently, there exists 719.7ha of unused State-owned land (284 pieces, more than 1000m² a piece) in the major metropolitan areas.

(3) The Government of Japan will set a goal of converting State-owned land (used for administrative purposes or for residence for employees of the Government) to be used more efficiently and unused State-owned land to productive use by the end of FY 1991.

(4) Land owned by the Japanese National Railways Settlement Corporation located in metropolitan areas is an important financial source of redemption for debts of the Corporation and also it is valuable space to be developed left in the hearts of metropolitan areas. From these viewpoint, the Government of Japan is pursuing its efficient utilization, taking into account various factors including considerations to land-price policy, conditions of land's location, and coordination with regional developments.

4. Improvement and increase of infrastructure necessary to facilitate increase in the supply of housing and residential land

(1) In view of installing steadily infrastructure necessary to facilitate increase in the supply of housing and residential land, the Government of Japan is conducting the following measures based on goal for installation which expressed in the "Savings and Investment Patterns" chapter.

(a) Regarding housing construction, the Cabinet decided in March 1991, setting a goal that by FY 1995 average floor area per house will have approximately 95m², to supply the total number of 7.3 million houses to be constructed and among them, 3.7 million houses are to be constructed by public subsidy and loan under the 6th Housing Construction Five-Year Plan.

(b) The Cabinet agreed that, in February 1991, with regard to the 7th Five-Year Sewerage Improvement Program starting from 1991 as first year, the total cost of investment scale on sewerage is 16.5 trillion yen, and total investment scale on urban parks is 5 trillion yen under the 5th Five-Year Program for Developing Urban Parks.

(2) Circular notices were issued to give guidance in August 1988 and in July 1989 respectively to those who implement public projects and so on regarding the active utilization of eminent domain system and as a result, in FY 1990 the number of eminent domain operations authorized based on the "Land Expropriation Law" has largely increased following the increase in FY 1989. The Government of Japan continues to encourage the more vigorous use of eminent domain through measures such as a manual compiled in March 1991 dealing with how to apply for approval for projects.

(3) To facilitate the public use of super-subterranean space, the Prime Minister's Office and related ministries are conducting careful studies and consultation with experts on legal, safety, environmental, and various other aspects of the utilization framework.

5. Review of the Land Lease Law and the House Lease Law

In order to meet the changed circumstances and to improve the legal relationship between lessors and lessees, and taking into account the desirability of greater availability of housing, a review of the Land Lease Law and the House Lease Law has been conducted since 1985 and the draft amendment of these laws was completed by the Legislative Council in February 1991.

The Government of Japan, taking into account more appropriate use of land and the supply of good quality houses for lease, submitted the amendment of these laws in March 1991 to the Diet to secure its early approval. These amendments contain the establishment of new aspect of land lease and house lease such as the fixed term land lease right to meet the change of the times and the identification of various factors when the judgment will be made on due cause which is vital condition to dissolve the relationship of the lessor and the lessee. The Government of Japan expects that the amendment of the "Land Lease Law" and the "House Lease Law" will help increase more appropriate use of land and the supply of good quality houses for lease.

6. Deregulation for the supply of Housing

(1) Regarding zoning designations and divisions between Urbanization Promotion Areas and Urbanization Control Areas, the Government of Japan gives guidance in compliance with the change of industrial structure and change of urban structure, and trend for land utilization conversion to review changing of zoning designations and divisions between Urbanization Promotion Areas and Urbanization Control Areas timely and properly. Second review has been conducted until March 1990 and 69,000ha has been extended under the extension of Urbanization Promotion Area, and Chiba prefecture, Aichi prefecture and Hyogo prefecture are doing the third review.

(2) As for the deregulation for the promotion of the housing supply, the Government of Japan in June 1990 enacted the amendments of the "City Planning Law" and the "Building Standard Law" to establish the "District Plan to Promote Intensive Use of Residential Land" which will form a better urban environment and promote the supply of medium and highrise houses by utilizing agricultural lands, etc. within Urbanization Promotion Area.

This deregulation measures was operated in November 1990.

This Plan ensures the relaxation of limits on total floor area ratio, building heights, etc. and facilitates the conversion of agricultural land, etc. in Urbanization Promotion Area to a good urban area for medium and highrise houses. The Government of Japan since then, has been encouraging the utilization of this Plan actively.

7. Official assessment of land value

(1) In order to rationalize the land value assessment for inheritance tax calculation expeditiously, taking into account the nature of the tax with a view to making the assessment closer to the market value, The Government of Japan has raised the assessment every year.

The Government of Japan carried out the rationalization by setting its target of the assessment at about 70% of the value equivalent to the Published Land Price. As the result, for the 1991's assessment of the highest land values in 47 prefectural capital cities, the Government of Japan raised the assessment by 38.1% for the 1990's assessment in the average ratio and the Government of Japan has almost achieved its aim.

From the assessment for the year 1992, in order to rationalize the assessment still more, from the viewpoint of the assessment on the basis of Published Land Price, the assessment time will be changed in accordance with the time of Published Land Price. On the other hand, the ratio of assessment for Published Land Price will be raised. Then reducing inheritance tax burden accompanying rationalization of the

assessment, review of tax-rate structure etc., will be examined on the occasion of review of the tax-reform for the year 1992.

(2) The price of land for housing in standard location of designated cities (prefectural capital cities) with regard to reassessment of FY 1991 approved by Central Fixed Property Valuation Council in September 1990, has increased by 30 percent averagely compared to assessment of previous year and it is the biggest rise since 1976.

The Government of Japan is intensifying a guidance to local governments to rationalize their land value assessment for fixed assets tax calculation at the time of the reassessment of the land valued in FY 1991, taking into account the land values of the standard points mentioned above.

Regarding the reassessment of fixed asset tax calculation of FY 1994 onwards the Government of Japan will further promote to rationalize expeditiously the land value assessment for fixed assets tax calculation through setting a goal of a fixed rate of published land price to be attained, in line with the object of Basic Land Act and, considering the balance with the land value assessment of inheritance tax calculation.

Regarding the publication of street value, the Government of Japan gives guidance to local governments so that local governments can make public as many street values as possible at the time of reassessment for FY 1991 to help ensure the rationalization. The Government of Japan also directs local governments for the planned expansion of publicized standard points in order for them to make public all the street values as soon as possible following the next reassessment.

III. Distribution System

Concerning the distribution system in Japan, the Government of Japan attaches great importance to the enrichment of consumer life in Japan through further improving efficiency, ensuring market access, and improving physical infrastructure. Based upon such recognition, the Government of Japan has taken the following measures in accordance with the SII final report.

1. Improvement of Import-related Infrastructure

(1) Airport Improvement

(a) Based upon the Fifth Five-Year Plan for Airport Improvement (FY 1986-90), the three most important projects (① the improvement of the New Tokyo International Airport, ② the off-shore expansion of the Tokyo International Airport and ③ the improvement of the Kansai International Airport), utilization of regional airports and improvement of local airports have been vigorously promoted.

In the Sixth Five-Year Plan for Airport Improvement, which has been initiated since FY 1991, to fulfill and diversify the aviation network, and to meet medium- to-long term growth of demand in air transportation, the three most important projects which are given the highest priority and the necessary improvement of other airports will be continuously promoted.

On March 1 the Cabinet conference understood that the Yen targets of the Sixth Five-Year Plan were 3,190 billion yen (66% more than those of the last plan). The details of the Sixth Five-Year Plan will be formulated in this autumn after the report of the Aviation Council.

(b) Improvement of necessary roads, including connection with main airports, is continuously prompted in line with the Tenth Five-Year Plan for Road Improvement.

(2) Harbor Improvement

The scale of investment in the Eighth Five-Year Plan for Harbor Improvement (FY 1991-95) has been given approval by the Cabinet as five trillion and seven hundred billion yen, 30% larger than the former Seventh Plan. The improvement of container terminals for overseas trade and large scale multipurpose terminals for overseas trade will be given high priority in the Plan. The details of the Plan will be formally authorized by the Cabinet this autumn.

Concerning warehouse facilities, the Government of Japan is assisting improvement of the facilities through low-interest loans by such banks as Japan Development Bank and various favorable tax measures.

Warehouse companies vigorously continue to be expanding their facilities. From the end of September 1989 to the end of the same month 1990, the increase in storage space of general warehouses is 6.6% and that of refrigeration warehouses is 9.6%.

2. Expeditious and Proper Import Procedures

As for accomplishing 24-hour clearance (from presentation of import declaration to import permit) through entry procedures for normal cargo import by 1991, the Government of Japan is making efforts to achieve this target by implementing the measures concerning expeditious and proper import procedures listed in the final report on the SII talks.

(1) Customs Clearance Procedures

(a) The Sea Cargo Automated Processing System

The Sea Cargo Automated Processing System will be introduced in two major ports (Tokyo and Yokohama ports-including Kawasaki port) this October. The FY 1991 budget includes budgetary measures for the system and necessary regulatory changes for its introduction were made in this Diet session.

The Government of Japan is planning to expand the service areas of this system to three other major ports (Kobe, Osaka-including Sakai and Nagoya ports) in the future.

(b) Upgrading NACCS (Nippon Air Cargo Clearance System)

The ADP customs clearance system study group undertook a study on revising the NACCS.

The Government of Japan is planning to study upgrading this system aiming at 1993. The concrete study on its development will be carried out by a newly set up conference with user members based on the recommendations of the above-mentioned study group.

(c) The Pre-Arrival Examination System

In the light of the results obtained by a trial on expansion of the scope and procedural simplification of the Pre-Arrival Examination System since last September, the Government of Japan officially applied measures for improvement throughout the country in a uniform fashion by amending relevant administrative directives in April 1991.

(d) The Automated Risk Judgement System Supported by Customs Data Base

A part of the Automated Risk Judgement System Supported by the Customs Data Base will be introduced to NACCS-operated customs offices and some offices of Tokyo and Yokohama (including Kawasaki) port areas in October 1991. Budgetary measures for this are included in the FY 1991 budget. The Government of Japan is planning to expand the service areas and functions in the future.

(e) Ensuring transparency of classification decision

① Amendment of advance ruling program

Measures for improvement were introduced to the advance ruling program in September 1990 and April 1991.

The main points of the September 1990 amendment are:

- 1) Extensions of the terms of validity of the issued ruling letters from six months to one year.
- 2) Review of each drafted ruling letter and national registration number assigned to it by the Classification Center.

3) Introduction of an appeal system, if an importer disagrees with the ruling.

The main points of the April 1991 amendment are:

- 1) Approval by the Import Division, Ministry of Finance is required in advance to change or alter an advance ruling.
- 2) The former ruling is valid for at most three months from the date of alteration of the ruling if the applicant proves adverse effects by the alteration of the rulings.

② Publishing of classification decisions

Individual classification decisions for two hundred items of merchandise were published in the booklet titled "Guidelines for the Classification of Import Goods" in August 1990.

(f) Narita-Baraki Issue

Customs clearance of international express courier cargoes at Narita started in April 1991.

(2) Import Procedures other than Customs Clearance Procedures

In accordance with the report submitted by the Japan-U.S. Experts Group on Import Procedures, which was established with a view to achieving more expeditious and proper import procedures and consists of agencies concerned, the Government of Japan has been studying the following measures and has been implementing the ones which have become feasible.

(a) Liaison Committee

The Government of Japan established the "Liaison Committee among Import-related Agencies" in September 1990. Taking account of the results of the survey on the "through" time required from cargo arrival to cargo release, the agencies will, if any problems become known, examine measures for improvement as necessary. The committee will continue efforts to reduce the average time required for all import-related procedures.

(b) The survey on the "through" time required from cargo arrival to cargo release

The Committee carried out the survey on the "through" time required from cargo arrival to cargo release in early February this year. The results of this survey were conveyed to the U.S. side in May. Taking account of those results, the Government of Japan will make further efforts toward realization of expeditious import procedures. Expansion of pre-arrival processing, increased computerization where feasible, and improvement of coordination among agencies are important parts of these efforts.

(c) Concurrent processing of customs clearance and procedures required by import-related laws

Concurrent processing of customs clearance and procedures required by import-related laws has been implemented under the framework of the Pre-Arrival Examination System since April 1991.

(d) Animal and plant quarantine

The Government of Japan will take adequate measures by such means as increasing the number of quarantine officers, improving the quarantine system, and expediting processing in the course of the import procedures.

(e) Food Sanitation Law

The Government of Japan has been conducting studies so as to make it possible to proceed with the following measures during the fiscal year 1991:

- publicizing the pre-filing system which has been introduced already.
- presenting a plan for a registration system of food factories in an export country.
- enlarging the scope of blanket handling.

The Government is also planning to take the following measures:

- increasing food sanitation inspectors by a large number (from 99 in FY 1990 to 143 in FY 1991)
- increasing reception counters for import declaration of foods in quarantine stations (4 counters)
- extending the working hours at Narita and Osaka Airports.

(f) Pharmaceuticals

The Government of Japan has been conducting a study so as to make possible, during fiscal year 1991, application for Yakkan certificate before the arrival of cargo.

3. Deregulation

(1) Large-Scale Retail Store Law

(a) Announcements of store openings were filed in the order of 1,210 in the ten months (from May 30, 1990 through March 31, 1991) after the deregulation measures for appropriate implementation of the law were taken. This number of announcements was much larger than in an average year. As of March 31, 1991, 2,535 applications were under coordination.

The Ministry of International Trade and Industry (MITI) is processing the applications so as to finish the coordination of these applications in one and half years. To this end, MITI has held five meetings of the Headquarters for the Promotion of Smooth Coordination of Store Opening and increased the number of officials concerned in MITI and in its regional bureaus by twenty in the fiscal 1991 budget. In the same period, also, 60 floors for import sales, the respective size of which is 100 m² or less, have been established and separate regulations by 39 local public authorities have been improved.

(b) Concerning the amendment of the Large-Scale Retail Store Law, based upon a recommendation report from the relevant Council in late last year, MITI submitted bills to amend the law and to introduce Special Law on Exceptional Measures concerning Floor Space for Import Sales to the last regular session of the Diet on February 18, 1991 and the two laws were passed on May 8, 1991. The summary of the change in the laws and the corresponding reform in the procedures are as follows:

① The coordination processing period for opening stores will be shortened to within one year.

② In order to enhance clarity and transparency of coordination procedures for opening stores, the Council for Coordination

Commercial Activities will be abolished and the coordination will be done by the Large-Scale Retail Store Council. Hereafter opinions of consumers, retailers, people of academic standing and Chamber of commerce and Industry or Commerce and Industry Association will be heard by the Large-Scale Retail Store Council, and the Council will, if necessary, request Chamber of Commerce and Industry or Commerce and Industry Association to report further opinions of local persons concerned.

(C) New opening or expansion up to 1,000^m of floor space for import sales in a large-scale retail store will be exempted from coordination procedures after notification.

(d) In order to restrain separate regulations by local public authorities, necessary legal measures are to be provided.

(e) The amendment law shall be put to enforcement within nine months after promulgation and will be reviewed two years after the enforcement.

(2) Regulation concerning premium offers and advertisement

The regulation of premium offers by the Act Against Unjustifiable Premiums and Misleading Representations, including that by Fair Competition Codes, is designed to ensure fair competition in the marketplace and protect consumer interests. Obviously, this system is not intended to be an impediment to new entry by foreign or domestic firms. The FTC has enforced and will continue to enforce this system so that it does not impede such new entry.

Responding to changes in economic environment, the regulation of Fair Competition Codes on premium offers in 14 industries (Automobile, Chocolate, Cosmetic, Dogfood, Newspaper Publishing, Solid Bean Curd, Curry and Pepper, Camera Manufacturing, Camera wholesaling, Magazine Publishing, Chewing Gum, Biscuit, Toothpaste and Agricultural Machinery) was relaxed in FY 1990. Among them, the relaxation in Newspaper and Magazine Publishing Industries was related to advertisements with coupons. Furthermore, in FY 1991, the regulation of Fair Competition

Codes on premium offers in two industries (Processed Tomato Products and Instant Noodles) was relaxed in April. Review of other codes on premium offers will be completed in this fiscal year as many as possible.

(3) Regulation concerning liquor sales and other businesses

(a) As for the issuance of liquor sales licenses, the statement was made in the Final Report of the SII that "the Government of Japan has decided on front-loading licensing to large retail shops (with a floor space of more than 10,000m²), which are expected to sell more imported liquors," and also that "the issuance of licenses to all of those shops will be completed by the fall of 1993." In accordance with the Report, the Government of Japan has been putting the measure into practice in a steady manner, that is, the Government of Japan issued about 100 licenses (50 licenses for the period from September 1989 to August 1990 and about 50 licenses for the period from September 1990 to April 1991) to the large retail shops to date.

(b) On trucking business, the Trucking Business Law was approved by the Diet at the end of 1989 and took effect on December 1, 1990. The law provides for deregulation of entry, from a licensing system to a permit system, while abolishing the supply-demand adjustment regulation, and of fare from the permit system to a notification system so that trucking companies could perform inventively and satisfy highly developed and diversified demands of consumers.

4. Improvement of trade practices

(1) The FTC, with a view to securing transparency of the enforcement of the Antimonopoly Act, will formulate guidelines which will clarify the criteria regarding the enforcement of the Antimonopoly Act with respect to distribution systems and business practices in Japan, including sole import distributorships. Draft guidelines were made available to the agencies concerned at home and abroad to solicit comments from them.

These guidelines will contribute to deterring violations of the Antimonopoly Act and encouraging appropriate business activities, by means of providing guidance on the Antimonopoly Act with regard to distribution systems and business practices, and thus, ensuring the understanding on the part of domestic and foreign firms, trade associations and consumers, etc.

The FTC, taking the comments submitted into full consideration, will finalize and publish guidelines, and will make efforts to disseminate them widely. The FTC will strictly enforce the Antimonopoly Act in accordance with the guidelines.

The guidelines will be formulated based on the principle of Japanese competition policy, which aims at promoting fair and free competition in the Japanese market, thereby securing the interests of consumers and making the Japanese market more open internationally. Neither the guidelines nor FTC enforcement will discriminate against foreign firms or products.

(2) The Ministry of International Trade and Industry (MITI) is encouraging the industries concerned to take steps to improve trade practices, based upon the guideline for improving trade practices which was presented last June. Responding to such encouragement, some industries concerned established each conference for improvement of their trade practices and are examining each trade practice according to the type of industry or business condition. The studies are focusing on the understanding of the current situation and problems and consideration of direction for improvement. Consultation desks on trade practices for foreign businesses were established in MITI and Japan Federation of Economic Organizations (Keidanren) last October.

5. Import Promotion

(1) The Government of Japan has been steadily implementing the package of comprehensive import expansion measures. The concrete steps taken are as follows:

(a) The tax incentives to promote manufactured goods imports were created in April 1990. Beneficiary companies are utilizing the tax benefits to further increase imports.

(b) Under the increased budget allocation for import expansion measures, programs were created to dispatch experts on a long term to identify products with potential for the Japanese market. (Total of 25 experts, 15 of whom have been sent to the U.S., have been dispatched.

Several experts are added in the FY 1991 budget.) Various import-related information is provided through 50 "Local Internationalization Centers" of JETRO, which have been established in each prefecture.

Since March last year, JETRO has held five "Export to Japan Study Programs". Of a total of 238 participants, 107 were businesspeople from the United States. The participants learnt about the Japanese market, while utilizing business opportunities in Japan as well.

During last fiscal year, 41 "short-term" experts were sent abroad to identify products with import potential in the Japanese market. Seventeen of them visited the United States. Sample products they brought were exhibited at Import Promotion Product Shows in Nagoya and Tokyo in October and in Osaka in March.

As of the end of March 1991, seven buying missions including the IMTS 90 Chicago Buying Mission had been sent to the United States. JETRO supported 27 missions from overseas, of which 12 were from the United States. Of particular note are such missions as the one to

the Tokyo International Gift Show, the American Furniture Manufacturers Association Mission, and those to the American Fashion '91 Fair and the Software Systems USA '90 Show.

(c) The low-interest loan facilities for import promotion were expanded in terms of the scope of eligible borrowers in FY 1990. In FY 1991 the size of the fund has been expanded.

(d) The elimination of tariffs on more than 1,000 products came into effect in April 1990.

Furthermore, under the agreement on trade expansion between the MITI and the U.S. Department of Commerce, 10 meetings have been held regularly among the U.S. Embassy in Tokyo, MITI, JETRO and MIPRO. The agreement was extended for two further years in April 1991, whereby MITI also agreed to cooperate with the U.S. side in carrying out the "Japan Corporate Program".

(e) MITI will provide information in the second follow-up year about the progress realized under the comprehensive import promotion program.

(2) In August 1990, the Trade Conference decided on the establishment of the Import Board. In April 1991 the first meeting of the Import Board was held with participation of 10 foreign members (3 of whom are Americans). Following the discussion of the meeting, general requests and opinions of the board members with regard to import expansion and facilitation will be summarized and reported to the Trade Conference, which is tentatively planned for June 1991.

(3) The Office of Trade and Investment Ombudsman (OTO) has been receiving and promptly processing concrete complaints by foreign firms and others, regarding import procedures and other issues which concern opening of the Japanese market and import facilitation at all times.

Moreover, on August 13, 1990, OTO decided the "Strengthening the Function of OTO" and has improved its operation by taking the following measures.

(a) The Prime Minister has appointed three new foreign nationals as Special Members attending the OTO Advisory Council since December 1990.

(b) More vigorously utilizing the provision which enables the Special Grievance Resolution Meeting to request that complainants, including foreign business people, attend the meeting and state their briefs and opinions; complainants have actually attended the Meeting since last September.

(c) The "New Review" on standards, certification and inspection was settled in January 1991. As an effort to make a more open market for the purpose of preservation and reinforcement of free trade, OTO shall intently carry out various measures including the following. ① OTO shall carry out the investigations of foreign standards and inspection with respect to the concrete issues which have been filed with OTO and consider further smooth resolution of complaints through these activities. ② From the view point of ensuring transparency and others, based on the complaints addressed to OTO, OTO shall prepare the concrete documents concerning the resolutions of the complaints and provide them home and abroad widely. ③ As regards individual issues which are under consideration in the Review, OTO shall report and ask deliberation to the OTO Advisory Council and others from time to time.

(d) The OTO Advisory Council and the Special Grievance Resolution Meeting shall continue to have the meeting with the members of foreign chambers of commerce and industry in Japan including ACCJ for the expression of their opinions regarding improvements in Japan's standards and certification system and other issues related to market access. The opinions expressed shall be considered by the appropriate Ministries and Agencies to enhance ease of access to the Japanese market and the results of such consideration shall be written up by the Secretariat and appropriately reported.

(4) MITI will examine the possibility of studying practices in the industrial product and wholesale distribution sectors to better understand the effects on foreign suppliers.

IV. Exclusionary Business Practices

Maintenance and promotion of fair and free competition is an extremely important policy objective, which not only serves the interest of the consumers but also increases new market entry opportunities including those of foreign companies. Based upon such recognition, the Government of Japan has implemented and will implement wide-ranging measures in the following four areas.

The progress has been made as described below since the issuance of the Final Report of the SII. Through such positive steps taken in these areas, fair and free competition has been further promoted in the Japanese market.

- a. Enhancement of the Antimonopoly Act and its enforcement.
- b. Greater transparency and fairness in administrative guidance and other government practices.
- c. Encouragement of transparent and non-discriminatory procurement procedures by private companies.
- d. Facilitation of patent examination disposals including a shorter examination period.

1. Enhancement of the Antimonopoly Act and its Enforcement

(1) Resorting More To Formal Actions

The Fair Trade Commission (FTC) has rigorously dealt with activities violating the Antimonopoly Act and has strictly excluded such conduct through resorting more to formal actions. In FY 1990, the FTC made 22 recommendations against activities violating the Antimonopoly Act, and issued surcharge payment orders to 175 firms involved in 11 cases, which amounted about ¥12.6 billion. Each of those figures mentioned above concerning formal actions taken in FY 1990 is larger than that of FY 1989 (i.e. recommendations: 7 cases: surcharge payment orders: 6 cases, 54 firms, and ¥803 million). Especially both the total amount and the number of cases involved of surcharge payment orders in FY 1990 were the highest since the introduction of the surcharge system.

The FTC will continue to deal rigorously with antimonopoly violations through resorting more to formal actions.

(2) Ensuring Greater Transparency

In order to ensure transparency, to enhance the deterrent effect and to prevent similar illegal activities, the contents, including the names of the offenders, the nature of the offense and circumstances surrounding it, of all formal actions such as recommendations and surcharge payment orders have been made public.

Furthermore, all warnings have also been made public other than in exceptional cases since October 1990. With regards to 16 out of 17 warnings issued between October 1990 and March 1991, the names of the parties concerned and the contents of the warnings were actually made public.

(3) Establishment of Consultation and Complaint Section for Foreign Firms

The FTC established the Consultation and Complaint Section for Foreign Firms, and appointed a special official (Officer in Charge of Consultation from Foreign Firms), in June 1990. The FTC has dealt with consultations and complaints from foreign firms and

businessmen concerning the Antimonopoly Act in a prompt and adequate manner. As a matter of fact, in FY 1990, the FTC received 11 consultations from them.

(4) Personnel and Budget of the FTC

The Government of Japan expanded the budget and personnel for the FTC, mainly aiming at the enhancement of the FTC's investigation department in FY 1990 and FY 1991. Concerning investigation department, in particular, the total number of personnel for both headquarters and local offices was increased in a large extent (about 30%) from 129 (FY 1989) to 165 (FY 1991), and five new offices were created.

The Government of Japan will continue with its efforts to steadily improve and strengthen the FTC, focusing the enhancement of investigation department.

(5) Surcharges

With regards to the increase of surcharges against cartels, "Consultative Group on the Amendment of the Antimonopoly Act concering Surcharges", established under the Chief Cabinet Secretary, submitted its report on Dec.21, 1990, concluding that the current level of surcharges should be raised following drastic reviews on it.

The Government of Japan, based upon the above mentioned report, submitted the bill to revise the Antimonopoly Act to increase the level of surcharges in principle, by four times, to the Diet during the regular session, in order to enhance the deterrent effect against cartels. The bill was enacted on April 19, 1991, and the revised Antimonopoly Act was promulgated on the 26th of the same month. The revised Act is planed to take effect as of July 1, 1991.

(6) Resorting to Criminal Penalties

The FTC will actively accuse to seek criminal penalties on the following cases, and this policy was made public on June 20, 1990:

- (a) Vicious and serious cases which are considered to have wide spread influence on people's livings, out of those violations which substantially restrain competition in any particular field of trade such as price cartels, supply restraint cartels, market allocations, bidrigging, group boycotts and other violations.
- (b) Among violation cases involving those businessmen or industries who are repeat offenders or those who do not abide by the elimination measures, those cases for which the administrative measures of the FTC are not considered to fulfill the purpose of the Act.

In June 1990, the Minister of Justice, on the occasion of the Annual Meeting of Chief Prosecutors, directed all the chief prosecutors to make special efforts to vigorously pursue cases where the FTC has accused a criminal violation of the Antimonopoly Act.

"Liaison-Coordination on Resorting to Criminal Penalties against Antimonopoly Act Violations" was established in April 1990, between the Ministry of Justice and the FTC, to deal adequately with antimonopoly violations. The Liaison-Coordination examined matters such as criminal accusation procedures concerning antimonopoly violations and completed its examination in December 1990. Following the examination by the Liaison-Coordination, in January 1991, Liaison Meeting on Criminal Accusations was established between the Ministry of Justice and the FTC, in order for criminal accusations to be brought in a smooth and appropriate manner through exchange of views and information regarding specific problems on individual antimonopoly violation cases.

In December 1990, the Ministry of Justice and the FTC agreed upon specific procedures under the provision of the Antimonopoly Act for transmission of relevant information concerning antimonopoly violations which is obtained by the Public Prosecutor's Office through its

investigation, to the FTC.

The FTC will make efforts to exercise its accusation authority strictly and promptly, by means of utilizing relevant information to be transmitted under the above-mentioned procedures, as well as other information activities, and the Liaison Meeting on Criminal Accusations.

Moreover, the FTC has held "the Study Group on Criminal Penalty under the Antimonopoly Act" consisting of scholars and other experts since January 1991, in order to conduct thorough examination on criminal penalties to increase the deterrent effect against antimonopoly violations, keeping close contact with the Ministry of Justice. As the result of study thus conducted, the Interim Report of the Study Group was published on May 17, 1991.

Under the Japanese criminal judicial system, including the criminal provisions of the Antimonopoly Act, the same amount of upper limit of fines is provided both against firms and against employees or officials. The Interim Report states that it is necessary to raise fines against firms to a sufficient level by setting the upper limit of fines against firms and that against employees or officials separately, in order to enhance the deterrent effect against antimonopoly violations, which are typical "corporate crimes".

Based on the Interim Report, the Study Group will continue the detailed examination, which is expected to be completed around the fall of this year.

Upon receipt of the conclusion of the Study Group, the FTC will further deliberate, while discussing this matter with the relevant authorities.

(7) The Damage Remedy System

(a) Whenever damage remedy suits are filed concerning antimonopoly violations on which the FTC's decisions have become final and conclusive, the FTC intends to play active roles in these suits, from its viewpoint that proper and swift recovery of damages caused by

violations of the Antimonopoly Act contributes to deterrence against such violations.

In order that the damage remedy system be effectively utilized concerning antimonopoly violations on which the FTC's decisions have become final and conclusive, the FTC has been taking the following measures:

(i) The FTC has described and will describe its findings on the violations as concretely and clearly as possible in its document of decisions, so that any party suffering damage from violation of the Antimonopoly Act be facilitated to resort to damage remedy suits based on Section 25 of the Antimonopoly Act or Article 709 of Civil Code. Furthermore, in order to alleviate plaintiffs' (injured parties') burden of proof in damage remedy suits based on Section 25 of the Antimonopoly Act and Article 709 of Civil Code, the FTC made public the following standards concerning submission and retention of materials and data regarding antimonopoly violations on which the FTC's decisions have become final and conclusive.

aa. Before a suit is filed, copies or abridged copies of relevant decision documents are to be provided upon request by the injured parties or their representatives, i.e. attorneys. Moreover, in case where a final decision is a form of consent decision or hearing decision, concerned parties, based upon Section 69 of the Antimonopoly Act, are to peruse or copy the records of the relevant case.

bb. After a suit is filed, upon request by the court, the FTC will provide, to the possible extent, materials and data that might be relevant to proof of violation, or the amount or causation of damages out of those which are obtained in the course of its investigation.

cc. In case where a hearing proceeding is pending, concerned parties, based upon Section 69 of the Antimonopoly Act, are to peruse or copy the records of the relevant case.

dd. The FTC will retain materials and data which might be relevant to proof of violation, or the amount or causation of damages, for three years after its decision becomes final and conclusive.

Warnings have been made public other than in exceptional cases. The FTC will provide, upon request by the injured parties, or their representatives, i.e. attorneys, with copies of the warning documents in cases where the warnings have been made public.

(ii) The FTC has held "Study Group on the Methodology for Calculation of Damages" consisting of scholars and other experts, and has conducted its deliberations since September 1990, in order to improve the content of the FTC's opinion based upon Section 84 of the Antimonopoly Act regarding causation between damages and violations and the amounts and calculation methodology of damages. The report of the Study Group was publicized on May 15, 1991. This report describes the following points:

- aa. The general idea with regards to causation between antimonopoly violation and damages, and the scope where such causation is generally acknowledged, concerning price-raising cartels, bidrigging, group boycotts, and resale price maintenance, against which damage remedy suits are likely to be filed.
- bb. The general idea with regards to the methodology for calculation of damages, and the general method to calculate damages concerning types of violations mentioned above.

The FTC, paying due consideration to the report, will describe its views concerning the causation between violations and damages and the amount and calculation methodology of damages in its opinion to be submitted to the court upon request, and will attach materials and data which serve as a basis of its opinion to the possible extent.

(iii) The FTC has conducted public relations activities in a positive manner, so that companies and consumers well recognize the significance of the damage remedy suit system under Section 25 of the Antimonopoly Act. The FTC also issued a press release with regards to its policies mentioned in (i) and (ii) above on May 15, 1991, and will conduct public relations activities on them in an active manner.

(b) Concerning the filing fee system, the Ministry of Justice and the FTC held 13 meetings to discuss and examine the following items:

- (i) The contents and backgrounds of the specific cases of private damage remedy suits based on the ground of antimonopoly violations;
- (ii) The relations between such contents and backgrounds of the cases and actual filing fees; and
- (iii) The rationality of the introduction of special legal treatment for private damage remedy suits based upon the Section 25 of the Antimonopoly Act, etc.

Through the above mentioned meetings, the Ministry of Justice and the FTC reached the conclusion that it was inappropriate to exempt or reduce the filing fees only for private damage remedy suits based on the Section 25 of the Antimonopoly Act.

On the other hand, irrespective of what the U.S Administration pointed out, the Ministry of Justice has for long had concern, as a matter relating to the entire civil action system of Japan, as to whether the current filing fee for civil actions with huge amount in controversy is appropriate and, therefore, whether it should be reduced. Consequently, the Ministry of Justice has started its basic study on this question and will make its best efforts to complete this study and take necessary action based upon the results of the study as soon as possible.

(8) Effective Deterrence against Bidrigging

(a) The Government of Japan will continue to seek to eliminate bidrigging on government-funded projects. Moreover, procuring agencies will increase their vigilance against bidrigging activities on their procurements, and will on their own judgment report relevant information regarding such activities to the FTC. Furthermore, in the National Coordinating Committee for Implementation of Public Works Contract Procedures, procuring agencies were clearly directed to observe the above mentioned policies.

(b) In reviewing the fines provided in the Criminal Code, the Ministry of Justice considered an increase in the maximum fine under the Criminal Code 96-3 concerning bidrigging, and decided to amend the Criminal Code to that effect. The ministry of Justice prepared the draft bill to revise the Criminal Code to increase the maximum fine against bidrigging from current one million yen to 2.5 million yen (among the highest in the Criminal Code.), and in September 1990 consulted on this draft bill with the Legislative Council of the Minister of Justice, an advisory body for Justice Minister. In December 1990, the Council made a recommendation that the draft bill was appropriate one.

The Government of Japan submitted the bill to revise the Criminal Code to the Diet during the current session, and the bill was enacted on April 11, 1991. The revised Criminal Code took into effect on and after May 7, 1991.

2. Government Practices

(1) Promotion of Administrative Reform

The Government of Japan has steadily taken necessary measures, to promote administrative reform including the legislation of 15 relevant laws up until the end of the 120th session of the Diet.

In November 1990, the Government of Japan conducted the second follow-up survey on the General Plan for the Promotion of Deregulation and reported the result of the follow-up to the third Provisional Council for the Promotion of Administrative Reform. In

the Administrative Reform Plan of FY 1991 (cabinet decision on December 29, 1990), the Government of Japan decided that the implementation of the measures listed in the General Plan be further promoted, and that deregulation measures discussed in the context of the Structural Impediments Initiative be taken.

With regards to the Third Provisional Council for the Promotion of Administrative Reform, the Government of Japan has taken the following steps:

- (a) The first meeting of the Council was held on October 31, 1990, and the Prime Minister requested the Council to conduct research and deliberation on the following three points;
 - (i) The current status on the implementation of the recommendations and opinions made by the Provisional Commission for Administrative Reform, the First Council and the Second Council for the Promotion of Administrative Reform,
 - (ii) Further reform agenda to be implemented, to ensure that administration emphasize consumers interests and quality of life to make people truly feel wealthy and take international responsibility to positively cope with international affairs, and
 - (iii) Overall improvement of current legal system to ensure further transparency and fairness of administrative procedures both internationally and domestically.
- (b) The Third Provisional Council for the Promotion of Administrative Reform has actively deliberated on the agendas requested by the Prime Minister. With a view to the formulation of the FY 1991 Draft Budget and other relevant governmental activities, the Council presented its "Opinion", on December 12, 1990, that showed basic principles for the promotion of administrative reform, including the two essential agendas, i.e improvement of quality of life and playing a more active role internationally. The Council will continue to deliberate the above mentioned two essential issues in order to submit a report of reform recommendation towards the end of 1991.

The Council will continue to deliberate as well on the uniform legislation of administrative procedure in order to submit

a report of recommendation, including a draft outline of the legislation by the end of 1991.

(2) Administrative Guidance

- (a) Following the SII Final Report, directors of the ministries and agencies related to the SII held a meeting, and they confirmed principles listed in the Final Report that administrative guidance will be implemented in writing and made public. They also concluded that each ministry, to which such principles were clearly notified, will observe them on its own responsibility.
- (b) Specific sections have been established in public relations departments of all ministries to offer opportunities for applicants to read public documents including those related to administrative guidances.
- (c) "The Sub-council for Fair and Transparent Administrative Procedure" of the Provisional Council for the Promotion of Administrative Reform has discussed and will discuss overall improvement of administrative procedures, and hence issues related to administrative guidances will also be examined in this sub-council.

(3) Advisory Committees and Study Groups

- (a) Following the SII Final Report, directors of the ministries and agencies related to the SII held a meeting, and they confirmed relevant principles listed in the Final Report concerning government sponsored "industry advisory committees and study groups." They also concluded that each ministry, to which such principles were clearly notified, will observe them on its own responsibility.
- (b) The results of the deliberation of such advisory committees and study groups have been made public. Specific sections have been established in public relations departments of all ministries to offer opportunities for applicants to read public documents including those related to advisory committees and study groups.

(4) With regard to the exemptions from the application of the

Antimonopoly Act, they are exceptional dispositions exempting certain special cases from the general rules of the Antimonopoly Act. The exceptional treatment has therefore always been kept to a minimum.

The exemptions from the application of the Antimonopoly Act should be at a minimum, and the necessity of existing exemptions will be reconsidered with a view to promoting competition policy. The scope of exemptions will also be reviewed, even in cases where they will be maintained, beginning with the exemptions, if any, which impede import trade or investment.

The FTC has been independently, studying, taking due consideration of current economic and social situation, the necessity, validity, and outline of rectification of the exemptions from the application of the Antimonopoly Act. The FTC plans to publicize the results of the study around the fall of this year.

No recession cartel based upon the Antimonopoly Act is currently in effect.

3. Procurement Practices of Private Firms

Minister of International Trade and Industry issued, July 26, 1990, a document called "Encouragement for the Procurement Procedures of Private Enterprises" to relevant 101 trade associations in order to encourage, from an international viewpoint, private firms to make their procurement procedures transparent and non-discriminatory against foreign goods as soon as possible.

Furthermore the Ministry of International Trade and Industry made every effort to encourage Japanese private firms, directly and indirectly, in various occasions (such as seminars, meetings with industry groups and meetings with individual firms), to take the above mentioned measures.

In addition, as an effective follow-up to such encouragement, the Government of Japan is conducting annual statistical surveys of those procedures for three years. The surveys include questions whether the following measures have been taken such as establishment of the specified sections in charge of procurement from foreign firms and publication of English pamphlets for procurement procedures to foreign firms. The Government of Japan circulated a questionnaire to private firms for its first annual survey, at the end of March 1991, and the result of the first annual survey will be finalized and made public by early July.

4. Effective Patent Examination

Regarding the harmonization of the patent system and its practices, the Government of Japan has been actively participated in the discussions at the multilateral fora such as WIPO and GATT-TRIP, etc. and has made its utmost efforts to promote the discussions there. The Government of Japan, together with the U.S. Government, will actively participate in the discussions there and will contribute to concluding the treaty as well as other initiatives. As for the average patent examination period of Japan, the Government of Japan has vigorously promoted comprehensive policy measures to expedite patent examination disposals. And through comprehensive policy measures, the average patent examination period of Japan already began to be reduced and there has been improvement in the situation of delays in patent examination.

Furthermore, the budget for FY 1991 greatly enhances our comprehensive policy measures by taking such a step as an increase in the prescribed number of patent examiners and other officials involved in

patent disposals of the Patent Office by 66 persons, which is more than double the increase of the previous fiscal year (an increase of patent examiners: by 30 persons each in FY 1989 and in FY 1990). The budget also includes funding for further promotion of paperless system (which aims to computerize almost every aspect and stage of processing from initial filing of applications to final dissemination of patent information), an increase in the number of experts who assist patent examiners in examining patent applications (the budget for employing such experts in FY 1991 is 70 % increase from that of FY 1990) and expansion of contracting with a specialized outside agency for prior art search necessary for patent examination (the budget for prior art searches in FY 1991 is 2.5 times that of FY 1990), etc.

As part of the paperless system, the Government of Japan started to operate the electronic application system for the first time of the world history on December 1, 1990 and has been operating it in a smooth manner.

Through continued promotion of these comprehensive policy measures, the Government of Japan will make its utmost efforts to implement the contents of the Final Report of the SII.

V. Keiretsu Relationships

The Government of Japan, recalling that there are certain aspects of economic rationality of Keiretsu relationships, in response to concerns that Keiretsu relationships may give rise to anti-competitive business practices, negatively affect foreign direct investment, and promote preferential group trade, reaffirms its intention to take necessary steps to make Keiretsu relationships more open and transparent.

The Government of Japan will implement a wide range of measures so that business transactions among companies with the background of Keiretsu relationships will not hinder fair competition and transparent transactions and that the entry of foreign firms into the Japanese market will be facilitated in the near future.

1. Strengthening the Function of the Fair Trade Commission

(1) The FTC has strengthened its monitoring of transactions among Keiretsu firms, to determine whether these transactions are being conducted in a way that impedes fair competition. In addition, the FTC reaffirms that if this monitoring reveals that these transactions are being conducted in such a way as to act either as a substantial restraint on competition or as an unfair trade practice, the FTC will take such action, including the restriction of cross-shareholdings, as is necessary to remedy the illegal situation. The FTC will publicize formal actions taken and include in its annual report the results of the monitoring and a summary of the formal actions taken.

(2) The FTC, with a view to securing transparency of the enforcement of the Antimonopoly Act, will formulate guidelines which will clarify the criteria regarding the enforcement of the Antimonopoly Act with respect to distribution systems and business practices in Japan. Draft guidelines were made available to the agencies concerned at home and abroad to solicit comments from them.

These guidelines will contribute to deterring violations of the

Antimonopoly Act and encouraging appropriate business activities, by means of providing guidance on the Antimonopoly Act with regard to distribution systems and business practices and thus, ensuring the understanding on the part of domestic and foreign firms, trade associations and consumers, etc.

The FTC, taking the comments submitted into full consideration, will finalize and publish the guidelines and will make efforts to disseminate them widely. In accordance with the guidelines, the FTC will strengthen its monitoring of transactions among Keiretsu firms, including but not limited to, those which have cross share holding relationships, in order that these transactions may not be conducted in a way of impeding fair competition, and will strictly enforce the Antimonopoly Act against violations of the Act.

The guidelines will be formulated based on the principle of Japanese competition policy, which aims at promoting fair and free competition in the Japanese market, thereby securing the interest of consumers and making the Japanese market more open internationally.

Neither the guidelines nor the FTC enforcement will discriminate against foreign firms or products.

(3) The FTC, in FY 1990, started analysis of actual conditions of 6 major corporate groups as well as surveys on continuous business transactions in 4 specific industries. The analysis of corporate groups is under way right now and its result will be published by the end of 1991. The result of the surveys on 4 industries will be published before long. The FTC will further conduct surveys in other specific industries and will make its best effort to commence such surveys by the end of FY 1991. In selecting industries for the next surveys, the FTC will give priority to some of those industries which are relevant to foreign trade or investment as expressed by foreign governments.

(4) The Chief Cabinet Secretary issued the Statement on Keiretsu relationships on August 3, 1990, which is one of the Japanese measures contained in the SII Final Report. In this statement, the Secretary

asked for the understanding and cooperation of firms concerned.

In Japan, issue of a statement by the Chief Cabinet Secretary means an expression of clear policy intent.

2. Foreign Direct Investment

(1) The Government of Japan issued the Policy Statement on the Openness of Japanese Investment Policy on June 28, 1990, which affirmed that it is important to make the utmost efforts to minimize restrictions and ensure fair and equitable access to each other's markets based on the principle of national treatment in accordance with international rules, and that, fully recognizing the importance of welcoming foreign direct investment in this country, the Government of Japan would actively pursue various measures.

(2) The Government of Japan submitted a bill to amend provisions of the Foreign Exchange and Foreign Trade Control Law concerning foreign direct investment and importation of technology into Japan to the Ordinary Diet Session on February 26, 1991 and the bill was enacted on April 19, in the Diet.

By this amendment,

① the current procedures that require prior notification for foreign direct investment are revised to the procedures under which almost all investments, except the cases as investment in industries related to national security or related interests and in four sectors as reserved under Article 2 of the Code of Liberalization of Capital Movements of OECD, could be executed upon the judgement of foreign investors and they have only to submit ex post facto reports to the Authority after the execution.

② it is made clear that foreign direct investment could only be restricted when it satisfies both of two criteria below.

(a) Foreign direct investment for which there is no

obligation of liberalization under the Code of Liberalization of Capital Movements of OECD, and

- (b) Among such foreign direct investment under item (a) above, those which, if executed, are deemed to threaten to imperil national security or related interests, or might adversely and seriously affect the smooth performance of the Japanese economy.

That is to say, under the revised Law, the provision stipulating "it might adversely and seriously affect the smooth performance of the Japanese economy" will be used to further limit the application of restrictions under Article 2, Article 7 and Remark (ii) of the List A in the Annex A of the Code. This will help to ensure that this provision contributes to achieving a further liberalization of the foreign direct investment regime and that sectors not subject to prior review can only be restricted in situations involving a national emergency as provided for in the OECD Code.

Concerning foreign direct investment for which there is no obligation of liberalization under the OECD Code, there are following four categories.

- (a.a) Foreign direct investment in sectors as reserved under Article 2 of the Code.
- (b.b) Foreign direct investment in sectors related to national security or related interests as described in Article 3 of the Code.
- (c.c) In the case where foreign direct investment results in serious economic and financial disturbance in the Member State concerned as described in Article 7 of the Code.
- (d.d) In the case where foreign direct investment would have an

exceptionally detrimental effect on the interests of the Member concerned as described in the Remark (ii) of the List A in the Annex A.

However, among categories listed above, (c.c) and (d.d) have not been invoked so far. Any restriction of investment under (c.c) or (d.d) above will only be taken by the Minister of Finance and the Ministers concerned upon hearing the opinion by the Council on Foreign Exchange based on a finding of national emergency as provided for in the OECD Code.

- ③ ex post facto report procedures are also introduced for importation of technology into Japan, and the criteria for restricting the importation of technology will be the same as applies to foreign direct investment.

(3) The Government of Japan is now in the process of preparing for amending the Cabinet Order, Ministerial Order, Public Notice etc. concerning the amended Law. Subsequently, the Government of Japan will make public a list of sectors for which only ex post facto report is required. Consulting this list, foreign investors could easily judge whether they are expected to submit an ex post facto report or file a prior notification; hence, legal procedures are rendered more transparent.

The Government of Japan will, hearing comments, if any, by interested parties, enumerate sectors for ex post facto reporting as early as possible. This list will be broad, and encompassing all sectors clearly excluding those which concern national security or related interests as described in Article 3 of the Code and those as reserved under the Code. After the publication of the list, based on the criteria set forth in paragraph (2)①, the Government of Japan will make efforts to periodically review it, and to add new sectors to the list reflecting the changes of the economic circumstances and the development of the discussions in the OECD.

(4) Recognizing the objectives of the Code of Liberalization of Capital Movements of OECD, the Government of Japan continues to

review carefully its reservations within the framework of the Code.

(5) Such financial institutions as the Japan Development Bank (JDB) continue to make the most of the low-interest loan facilities offered exclusively to foreign companies and foreign affiliates in Japan. These facilities have been drastically expanded or established in June, 1990.

Appropriate offices of JETRO and the overseas representative offices of the JDB continue to provide information useful in foreign direct investment in Japan and to arrange seminars and missions for potential investors (JETRO offices only).

3. Revision of the Take-Over Bid System

Regarding the Take-Over Bid (TOB) System, as is stated in the SII Final Report, an amendment bill of the Securities and Exchange Law to revise the TOB system was approved by the Diet in June 1990.

Thereafter, the Government of Japan promulgated the relevant Cabinet Order and Ministerial Ordinances and the revised system has been placed into effect since December 1, 1990.

4. Enhancement of Disclosure Requirements

(1) Regarding the so-called 5 percent rule, which requires the disclosure of substantial ownership in shares, as is stated in the SII Final Report, an amendment bill of the Securities and Exchange Law to introduce the rule was approved by the Diet in June 1990.

Thereafter, the Government of Japan promulgated the relevant Cabinet Order and Ministerial Ordinances and the rule has been placed into effect since December 1, 1990.

(2) Among the measures to enhance the disclosure requirements related to the Keiretsu problem, in relation to enhancement of reporting of related-party transactions, disclosure of the consolidated financial statement in the primary annual statement and inclusion of sales amounts

by major customers in unconsolidated financial report, the Government of Japan promulgated a ministerial ordinance on December 25, 1990 that incorporated the whole contents that were stated in the SII Final Report.

These measures have been implemented from the business year beginning on or after April 1, 1991.

The rule for segmented financial reporting that incorporates the whole contents that were stated in the SII Final Report has also been implemented from the business year beginning on or after April 1, 1990. Recognizing the character and structure of segmented reporting requirements in other industrial countries, the GOJ thinks it important to make further enhancements of these requirements consistent with international efforts in harmonization of disclosure requirements.

5. Reexamination of the Company Law

Reaffirming the commitment in the SII Joint Report to reexamine the Company Law with a view to enhancing disclosure requirements and shareholders' rights and to simplifying mergers and acquisitions procedures, the Legislative Council has commenced its examination of the Company Law. Pursuant to this examination, priority has been given to the issue of simplifying the rules on mergers and acquisitions. Elements included in the simplification and the rationalization of M & A procedures include the abolition of the general meeting for making report in case of M & A and the relaxation of requirements for mergers, including broadening the qualification of companies for mergers.

The Legislative Council is also examining the enhancement of the disclosure requirements in the Company law, as well as the enhancement of the shareholders' rights. This includes facilitating the system of derivative lawsuits and improving shareholder access to corporate financial books and records.

The Japanese Government will make its best efforts to accelerate the deliberation process of the Legislative Council so that the conclusions may be reached as soon as possible. Immediately after receiving the

Legislative Council's recommendations, legislation will be introduced in the Diet.

The GOJ will explain on the progress of the Legislative Council's review in the 1992 follow-up meeting of the SII.

W. Pricing Mechanisms

Based upon the recognition that it is undesirable, in realizing a high quality of life, for large and unreasonable price differentials between domestic and overseas markets to continue to exist for a long time, the Government of Japan has been implementing the policies to adjust the differentials, and the policy measures included in the final report of the SII have been implemented as follows.

1. Implementation of Measures to Adjust Price Differentials between Domestic and Overseas Markets

(1) The government agencies concerned have steadily implemented the 52 measures, which was decided by the Government-LDP Joint Headquarters for Adjustment of Price Differentials between Domestic and Overseas Markets in its second meeting, and made public the state of implementation each time any measure was implemented.

(2) The Headquarters, in its third meeting held on July 27, 1990, reviewed and acknowledged the implementation of the 52 measures, and added 20 measures, totaling to 72 measures all together.

The Headquarters made public the results of the above-mentioned meeting on the same day, including, where needed, a clearer schedule for further implementation.

(3) The Headquarters, in its fourth meeting held on March 5, 1991, reviewed and acknowledged the implementation of the 72 measures, and added 22 measures, totaling to 94 measures all together.

The Headquarters made public the results of the above-mentioned meeting on the same day, including, where needed, a clearer schedule for further implementation.

2. Continuous Implementation of Domestic and Overseas Price Survey and the Dissemination of Information to Consumers and Industries

(1) Pursuant to the decision of the Joint Government-LDP Headquarters, the Ministries of International Trade and Industry, Health and Welfare,

Agriculture, Forestry and Fisheries, Finance and Transport have conducted independent surveys under their jurisdiction and have made public the results of the surveys.

These surveys have been done mainly from the standpoint of consumers' interest. They have not been mandatory, nor have they compelled the disclosure of trade secrets. The disseminations of comparative price information have not been done in a manner which discriminates against imports or interferes with individual firm pricing decisions.

(2) The Government of Japan and the United States Government agreed new procedure for working more closely with each other on future price surveys.

(3) MITI held meetings with consumers in nine major cities in September and October 1990 to explain the problem of price differentials as well as to exchange views on it.

3. Promotion of Deregulation

(1) Based on the General Plan for the Promotion of Deregulation, deregulatory measures have been promoted, which include the enactment of 15 deregulatory laws. The second follow-up survey was conducted in November 1990, concerning the General Plan for the Promotion of Deregulation, and its results have been made public.

(2) The Cabinet decided in December 1990 on the Administrative Reform Plan of 1991, which includes the further promotion of the General Plan for the Promotion of Deregulation and the promotion of the deregulatory measures agreed upon in the Structural Impediment Initiative talks.

(3) The first meeting of the Third Provisional Council for the Promotion of Administrative Reform was held on October 31, 1990, and the Prime Minister requested the Council to conduct research and deliberation on the following three points:

- 1) The current status on the implementation of the recommendations and opinions made by the Provisional Commission for Administrative Reform, the First Council and

- the Second Council for the Promotion of Administrative Reform;
- 2) Further reform agenda to be implemented, to ensure that administration emphasize consumers interests and quality of life to make people truly feel wealthy and take international responsibility to positively cope with international affairs; and
 - 3) Overall improvement of current legal system to ensure further transparency and fairness of administrative procedures both internationally and domestically.

The Council accordingly established three sub-committees in January and February 1991, and has been deliberating on these requested subjects.

4. Further Steps Based on the Final Report of the SII

In addition to the measures listed above, the Government of Japan has taken concrete steps with respect to the structural problems identified in the SII final report. It is expected that those steps allow price mechanisms to work more effectively in the Japanese market.

5. Submission of the Results of Price Surveys and Joint Activities

The Government of Japan conducted the second joint price survey with the U.S. Government in April 1991, and submitted the results of the survey to the third SII follow-up meeting.

Though the report shows that the prices of some Japanese exports are still higher in Japan than in the U.S., and some prices of U.S. and European exports are still much higher in Japan than in the U.S., the results of the survey indicate that the price differentials situation between Japan and the U.S. as a whole is improving, after comparison with the previous survey.

REPORT BY THE U.S. DELEGATION

Structural Impediments in the U.S. Economy

During the SII talks, the Government of Japan (GOJ) identified several conditions in the U.S. economy which may impede trade, competitiveness, and balance of payments adjustment. The *SII Joint Report*, published on June 28, 1990, reviewed initiatives that address the issues raised by the Government of Japan. The discussion below outlines the progress made during the past year toward implementing these initiatives.

I. Saving and Investment Patterns

During the past year, the U.S. current account deficit has declined. It remains an important goal of U.S. economic policy to reduce the U.S. current account deficit. Raising U.S. saving rates would make an important contribution toward reducing the nation's current account imbalance. Increasing the pool of domestic saving would help to lower U.S. interest rates, thereby facilitating investment, productivity and economic growth. Since June 1990, the Administration has taken action to promote saving by both the public and private sectors and has achieved considerable progress in this regard. These actions should facilitate an increase in the U.S. saving rate.

Public Sector: Deficit Reduction and Government Saving

The most direct and effective way that Federal policy can promote saving in the U.S. is to reduce Federal dissaving. To this end, the Administration's top budget priority has been, and continues to be, the elimination of the overall consolidated Federal budget deficit. President Bush demonstrated his commitment to achieving these aims by initiating negotiations with Congressional leaders to develop a responsible and lasting solution to Federal budgetary imbalances. The Omnibus Budget Reconciliation Act of 1990 (OBRA90) reduces the projected deficit by almost \$500 billion over five years compared with what it otherwise would have been. The *SII Joint Report* described the Administration's determination to make best efforts for the improvement of the G-R-H budget law. OBRA90 represents the success of the Administration's efforts to improve the budget law. The new law puts into place major budget reforms to help ensure that the budget deficit reduction takes place.

Update on the Federal Budget Deficit

The Administration has projected a total budget deficit of \$318 billion for FY 1991, representing 5.7% of projected GNP, compared with 4.1% in FY 1990 and 2.9% in FY 1989. The budget deficit for the first six months of FY 1991 (through March, 1991) was \$151.6 billion, versus \$150.8 billion for the same period last year.

There are two principal reasons for the deterioration since FY 1990: a sluggish economy and the cost of resolving insolvent financial institutions. Fortunately, these increases in the budget deficit are temporary; steady progress on reducing the "structural deficit" is expected in FY 1992 and after.

- o After slowing in 1989, the record-long economic expansion ended in July 1990. Economic growth in the fourth quarter of 1990 was -1.6%, and a preliminary estimate of first quarter 1991 growth was -2.8%. The sluggish economy has generated substantially lower levels of revenues for the Federal government than anticipated and higher-than-expected Federal outlays for those affected by the downturn.
- The outlook for 1991 is uncertain, but the consensus among private economists is that the U.S. economy is experiencing a shallow recession and that growth will resume by the summer. The revenues and outlays proposed in the President's budget for FY 1992 are based on an assumption of 0.9% economic growth in CY 1991.
- o The financial transactions of the Resolution Trust Corporation (RTC) and other deposit insurance programs, now classified as "on-budget", have severely aggravated projected Federal budget deficits in the near-term. For example, these transactions are projected to result in net outlays of \$111.5 billion in FY 1991, \$88.1 billion in FY 1992 and \$44.2 billion in FY 1993. In the longer-term, however, the disposition of assets acquired from failed financial institutions is expected to lead to a net inflow of revenue: an estimated \$38.1 billion in FY 1994; \$42.3 billion in FY 1995; and \$29.9 billion in FY 1996. Moreover, despite their magnitude, RTC transactions are unlikely to have any significant impact on the national saving rate or the U.S. current account.
- Unlike most other on-budget expenditures and receipts, RTC transactions have little effect on interest rates and the overall economy. The RTC's transactions would not induce depositors to change the level of deposits they hold or other aspects of their saving behavior.

The Omnibus Budget Reconciliation Act of 1990

- o **Multi-year deficit reduction.** OBRA90 codified into law the largest deficit reduction package in U.S. history. The deficit will be cut by about \$40 billion in FY 1991 and by almost \$500 billion over the next five years relative to what it was projected to be in the absence of OBRA90. Of the nearly \$500 billion in total deficit reductions, about two-thirds will be achieved through outlay reductions and one-third will be derived from revenue increases.
 - Of these total cuts in outlays, approximately \$75 billion in savings come from entitlement programs, including agricultural subsidies and Medicare spending. Caps on overall discretionary spending will result in savings of approximately \$180 billion. It is projected that debt service costs will be reduced by almost \$60 billion.
 - The near \$150 billion in total revenue increases are to be realized from almost \$140 billion in new taxes (net of new or extended tax expenditures costing about \$27 billion), and from \$10 billion collected through additional IRS enforcement.
 - OBRA90 is expected to reduce future deficits substantially from what they would have been in the absence of the Act.
 - OBRA90 requires that the budget submitted by the President each year be consistent with spending caps on discretionary measures and "pay-as-you-go" restraints on mandatory programs (see below for details). The Administration will comply with its obligations under OBRA90, and details of the budget -- and in particular how it complies with the budget law -- will be discussed in the SII follow-up process.

The Budget Enforcement Act of 1990 (BEA90), a component of the new budget law, enacted reforms that "strengthen the budget process". Some of these reforms are equivalent to or better than those described in the *Joint Report*.

- o **New constraints on entitlements.** A pay-as-you-go system for taxes and entitlement expenditures was established by BEA90. Decreases in taxes or increases in entitlements must be deficit-neutral -- off-set by increases in other taxes or cuts in entitlements elsewhere. *For the first time, no new entitlement or revenue legislation can increase the deficit.* This pay-as-you-go mechanism is quicker to respond to evidence of over-spending and better targeted on the problem area than the previous G-R-H law.

- There is a "look-back" sequester on entitlement spending. Any legislation violating the pay-as-you-go system that adds to the deficit would activate automatic, across-the-board cuts of all non-exempt entitlement programs within 15 days of the end of the Congressional session.
- o **Binding caps on discretionary spending.** *For the first time, legally binding caps have been placed on discretionary spending.* For FY 1991 through FY 1993, caps are placed on each of the three categories of discretionary spending: domestic; defense; and international. A single cap is placed on total discretionary spending in FY 1994 and FY 1995. The caps for FYs 1992-95 are adjusted annually to account for changes in budget concepts and definitions, and inflation assumptions. The current total discretionary spending caps are: \$517.9 billion (1991); \$527.5 billion (1992); \$537.6 billion (1993); \$537.8 billion (1994); and \$543.2 billion (1995). Adjustments are determined by the Office of Management and Budget (OMB) and submitted with the President's budget.
- Should attempts be made to exceed these caps with new discretionary programs, remedies are in place that target the problem area. Legislation that would exceed the caps requires a super-majority (60 votes in the Senate), which makes spending restraint easier to enforce. Appropriation bills that exceed the caps trigger automatic sequesters. For regular appropriation bills, sequesters would occur 15 days after the end of the Congressional session. "Within-session sequesters" would be applied 15 days after enactment for supplemental appropriations enacted before July 1. "Look-back sequesters" would be applied for supplemental appropriations enacted in the last three months of the session (after July 1) and would reduce the cap(s) for the following year.
- The sequester is ordered against the specific spending category that is exceeded in order to focus and target the enforcement mechanism. Across-the-board cuts apply to programs within that category.
- Appropriations designated by the President and Congress as meeting emergency requirements, and the incremental costs of Operations Desert Shield and Storm, are exempt from the discretionary caps.

- o **G-R-H budget law extended and improved.** BEA90 extends the G-R-H budget law through FY 1995 and improves on it in several aspects. The old G-R-H procedures are now buttressed by two new types of sequesters (pertaining to discretionary and pay-as-you-go spending limitations), as described above.
 - BEA90 also creates three sequester check-points for discretionary spending: "end-of-session sequesters"; "within-session sequesters"; and "look-back sequesters". The principal loophole in the G-R-H law was that spending increases and revenue reductions enacted after October 15 did not count against the deficit targets and, therefore, could not trigger a sequester. BEA90 closes this loophole.
- o **Consistent use of economic assumptions.** BEA90 provides that the economic assumptions used for the President's budget shall be used throughout the budget process by the Administration and the Congress. This change has the distinct advantage of providing only one reference, or baseline, from which proposed receipts and outlay changes are to be measured.
- o **Appropriate adjustment of economic assumptions.** Under BEA90, the deficit targets will be adjusted -- up or down -- to reflect changes in short-run economic conditions. The adjustment is required for FYs 1992 and 1993 and may be made if the President chooses in FYs 1994 and 1995. The budget savings mandated in OBRA90, however, are not affected by changes in the economic assumptions. Moreover, the adjustments do not affect the spending caps, which will be adjusted to reflect the same constant dollar value implied by the underlying inflation assumptions in BEA90, which are explicitly stated in the law.
 - This adjustment restores good economics to fiscal policy. There is widespread consensus among economists that government budget deficits should rise if the economy weakens and should fall if it strengthens. Changes in tax revenues and transfer payments provide "automatic stabilizers" for the economy. They add purchasing power to the economy during downturns, when it is most needed, and withdraw purchasing power during upswings, when the economy may be "overheating". BEA90 restores the "automatic stabilizer" effects of the budget, while maintaining the movement of the budget toward balance over the longer run.

- o **Score-keeping authority vested in OMB.** BEA90 gives OMB the final score-keeping authority related to all budget enforcement actions. Under the new procedures, the Congressional Budget Office (CBO) provides OMB its estimate of budget authority and outlays as soon as possible after Congress completes action on any appropriation, direct spending or revenue legislation. OMB then transmits its own estimates along with the CBO estimates to the Congress with an explanation for any differences. The same procedure is in place for any sequester that may be needed.
- o **Transparent budgeting of credit programs.** The Credit Reform Act of 1990 (CRA90), another component of the new budget law, enacted very significant reforms in the budgetary treatment of Federal credit programs. These reforms had been pursued unsuccessfully by different Administrations since 1967, when the President's Commission on Budget Concepts made recommendations which now, for the most part, have finally been adopted. Under the reforms, the costs of Federal credit programs will be measured more accurately, and these programs will be put on a budgetary basis equivalent to other Federal spending. The law now requires that appropriations be available to cover the subsidy cost of all Federal direct loans and all loan guarantees when they are made. This removes the incentive to provide Federal benefits through implicit subsidies embedded in Federal loans and loan guarantees rather than through direct appropriations, even when the Federal credit program might cost more in the long run. The reform will therefore encourage fiscal restraint and further definition of spending priorities.
- o **Forcing budget trade-offs.** An effect of the budget reforms adopted under OBRA90 is to force real choices about measures that affect outlays and revenues. The category limits for discretionary spending will force tradeoffs within each category: defense, international and domestic. The provisions that allow for adjustments for economic and technical assumptions ensure that the decision-makers are given credit for making policy trade-offs and are not forced to make unrealistic choices (or abandon the attempt) because of changes in conditions outside their immediate control.

- o **The budget reforms work.** There is already evidence to conclude that the enforcement provisions embodied in BEA90 are yielding the desired effects.
 - On November 9, 1990, just five days after the President signed OBRA90 into law, a \$395 million sequester was imposed on the international affairs discretionary spending category. This sequester resulted in an automatic 1.9% reduction in all other programs in the international affairs category.
 - On March 21, 1991, a Senate and House Conference Committee that was dealing with a supplemental appropriations bill (H.R. 1281) cut \$29 million from the bill in order to stay within the domestic discretionary spending cap. It is significant that the Congressional Budget Office had estimated that the bill would not exceed the spending cap, but the Office of Management and Budget estimated that it would, by \$29 million.
 - On April 10, 1991, when the President signed into law H.R. 1281, the bill was found to violate the domestic discretionary spending cap by \$2.4 million. As prescribed by BEA90, the Director of OMB wrote to the appropriate Congressional committees indicating that an across-the-board "within-session sequester" of 0.001% would be imposed by April 25 unless \$2.4 million were to be cut from other domestic programs. The necessary cuts were not made by the Congress and, on April 25, the Administration filed a "Sequestration Report" report with the Speaker of the House and the President of the Senate, requiring the imposition of a within-session sequester.
 - The President's budget for FY 1992 adheres strictly to the requirements of OBRA90. Moreover, *the President proposed greater spending restraint than the law requires.* The President's FY 1992 budget proposes reductions in the "pay-as-you-go" category (mostly cuts in Medicare outlays) that would cut \$37.3 billion more from the FY 1991-1995 deficit than OBRA90 requires. The President proposed total outlays of \$1,445.9 billion in FY 1992, 2.6% more than FY 1991, representing a real decline in spending. This real spending reduction, coupled with a projected 6.7% increase in FY 1992 revenues (to \$1,165.0 billion), is expected to result in a deficit of \$280.9 billion, a decrease of 11.7% from the projected FY 1991 deficit.

- Thus far, the new budget process has also worked well in the Congress. On April 17, 1991, the House adopted a budget for FY 1992 that remains within the spending limitations imposed by OBRA90, though it would produce a deficit that is \$10 billion larger than would result from the President's FY 1992 budget proposals. In the Senate, a budget was reported out of committee on April 17 that is very similar to that adopted by the House. The Senate's budget was adopted on April 25, and a conference committee (to work out differences between the House and Senate versions) is expected to take place in May. By contrast with recent years, Congressional consideration of the budget this year has proceeded very near to schedule and without disruption.
- o **More budget reforms needed.** The budget process reforms of BEA90 have worked well so far to enforce spending discipline and to push forward the President's priorities. However, the Administration continues to support five other reforms that were described in the *SII Joint Report*: the legislative line-item veto that would give the President "enhanced rescission authority"; a "balanced budget" amendment to the Constitution; a constitutional "line-item veto authority" that would provide the President with a tool to curb the demands for special interest spending; biennial budgeting; and a joint budget resolution, which needs the President's approval and would guarantee presidential involvement in the budget negotiations early in the process. These reforms have been proposed again in the President's FY 1992 budget.

Protecting Social Security Surpluses

OBRA90 revised the definition of the G-R-H deficit targets to exclude the retirement and disability part (OASDI) of the U.S. Social Security System. The social security surpluses (including interest) are not counted in the new G-R-H targets. Once the targeted budget is balanced, the consolidated budget will be in surplus, reducing the government's outstanding debt held by the public by the approximate amount of the social security surplus.

- o These revisions to the budgetary treatment of social security are similar in effect to the Social Security Integrity and Debt Reduction Fund, as proposed by the President in his FY 1991 budget (and described in the *SII Joint Report*).
- o In order not to erode social security surpluses in the future, provisions in OBRA90 were adopted which would make it difficult for the Congress to increase benefits or reduce social security taxes.

- A point of order must be overcome, in either the House or the Senate, before any legislation can be considered that either increases OASDI benefits without offsetting increases in OASDI taxes, or reduces OASDI taxes without offsetting reductions in benefits. A "super-majority" of 60 votes would be required to overcome a point of order in the Senate.
- The offsets must be such that the OASDI Trust Fund remains both in short-term (5-year) and long-term (75-year) actuarial balance, thus maintaining the OASDI Trust Fund build-up.
- o The Administration is opposed to proposals, such as lowering the payroll tax rate, that would reduce or eliminate the OASDI Trust Fund build-up.
- Such a proposal was introduced in the Senate by Senator Moynihan in April 1991 and was defeated by a large majority.

Revenue Developments

- o The President's budget for FY 1992 projects revenues of \$1,165.0 billion, an increase of \$73.6 billion (6.7%) over FY 1991. Of the total:
 - \$529.5 billion (45%) is expected from individual income taxes;
 - \$429.4 billion (37%) is expected from social insurance taxes;
 - \$101.9 billion (9%) is expected from corporate income taxes;
 - \$47.8 billion (4%) is expected from excise taxes;
 - \$56.4 billion (5%) is expected from other taxes, fees, and receipts.
- o Of the revenue measures described in the SII *Joint Report*, the following have been enacted under OBRA90 (all revenue estimates provided by the Congress' Joint Committee on Taxation):

- The air passenger tax was increased from 8% to 10%. The tax on air freight was increased from 5% tax to 6.25%. The tax on non-commercial aviation gasoline was increased from \$.12 to \$.15 per gallon. The tax on noncommercial aviation jet fuel was increased from \$.14 to \$.175 per gallon. In addition, OBRA90 specifies that all revenue from the increases in aviation gasoline and fuel excise taxes relative to prior law rates go to the General Fund of the Treasury through 1992, and to the Airport and Airway Trust Fund for 1993-1995. Excise taxes deposited in the airport and airway trust fund were scheduled to expire after December 31, 1990. OBRA90 extended these taxes through December 31, 1995. These aviation taxes are expected to raise \$11.9 billion through FY 1995.
 - The ad valorem fee on shippers (the harbor maintenance excise tax) was increased from 0.04% to 0.125% effective January 1, 1991. This is expected to raise \$1.8 billion through FY 1995.
 - The 3% communications excise tax was extended. This extension is expected to yield \$13.1 billion through FY 1995.
- o In addition to those mentioned above, the following revenue measures, which were not described in the *SII Joint Report*, have been enacted under OBRA90 (all revenue estimates provided by the Congress' Joint Committee on Taxation):
- Individual income taxes were modified. The prior law phase-out of personal exemptions and low-bracket benefits, which resulted in a marginal tax rate of 33% for individual taxpayers with incomes "in the bubble" (from \$82,150 to \$218,710 for a joint return) and a 28% marginal tax rate for taxpayers with higher income, has been eliminated. The statutory rate for those who were formerly in or beyond the bubble is now 31%. The rate of the Alternative Minimum Tax for individual taxpayers has been increased to 24% from 21%. However, the maximum tax rate on capital gains is 28%. These provisions, which are effective January 1, 1991, are estimated to raise \$11.2 billion through FY 1995.
 - Itemized deductions on individual income tax returns have been reduced by an amount equal to 3% of the taxpayer's adjusted gross income in excess of \$100,000. This provision is estimated to raise \$18.0 billion through FY 1995.

- Personal exemptions have been phased out for taxpayers whose adjusted gross incomes exceed threshold amounts. This provision is estimated to raise \$10.8 billion through FY 1995.
- The tax on motor fuels is increased by \$.05 per gallon. The tax on diesel fuel used by railroads increased by \$.025 per gallon. These provisions are estimated to raise \$25 billion through FY 1995.
- Excise taxes were increased on distilled spirits, beer and wine. These taxes are expected to raise \$8.8 billion through FY 1995.
- Excise taxes on tobacco products were increased by 50% in two stages. This is expected to raise \$5.9 billion through FY 1995.
- Excise taxes on ozone-depleting chemicals were expanded to apply to an expanded list of chemicals. This is expected to raise \$500 million through FY 1995.
- New "luxury" excise taxes of 10% were imposed on the retail price of goods in excess of \$30,000 for autos, \$100,000 for private boats (other than those used for certain business activities), \$250,000 for aircraft (other than those used for certain business activities), and \$10,000 for furs and jewelry. These taxes are estimated to raise \$1.5 billion through FY 1995.
- The rate of the "gas guzzler" tax was doubled. This is estimated to raise \$400 million through FY 1995.
- The Leaking Underground Storage Tank (LUST) Trust Fund taxes were extended for five years. This is estimated to raise \$600 million through FY 1995.
- Deductions allowed to property and casualty insurance companies for losses incurred were reduced by the estimated salvage and recoveries attributable to such losses. This is estimated to raise \$600 million through FY 1995.
- Insurance companies were required to capitalize and amortize over 5 years an amount intended to represent policy acquisition costs, effective October 1, 1990. The amount to be capitalized is a percentage of net premiums from certain types of policies. This provision is estimated to raise \$8.0 billion through FY 1995.

- The excise tax on reversions of excess pension funds to the employer was increased from 15% to 20%. This is estimated to raise \$900 million through FY 1995.
- Coverage under the Medicare system was extended to all employees of state and local governments not covered under other retirement plans, effective July 1, 1991. This is expected to raise \$9.2 billion through FY 1995.
- The interest rate paid by corporations to the IRS on underpayments by over \$100,000 of corporate income taxes was increased by 2 percentage points, effective January 1, 1991. This is expected to raise \$1.8 billion through FY 1995.
- Rules relating to certain U.S. corporate transactions have been revised, effective October 10, 1990. These changes are estimated to raise \$1.3 billion through FY 1995.
- The cap on wages subject to the Medicare Hospital Insurance Payroll Tax was increased from \$54,300 to \$125,000, effective January 1, 1991. This is estimated to raise \$26.9 billion through FY 1995.
- The 0.2% Federal unemployment surtax was extended for 5 years, effective January 1, 1991. This is expected to raise \$5.4 billion through FY 1995.
- The rules for depositing taxes withheld from employees by employers have been made more consistent. This is estimated to raise \$1.0 billion in FY 1991, but to have no net revenue effect during the FY 1991-1995 period.
- OBRA90 enacted a number of other revenue-raising provisions, including the taxation of U.S. beneficiaries as the grantor of a U.S. or foreign trust if the U.S. beneficiary makes a transfer of property by gift (other than an annual gift of less than \$10,000) to a foreign person who would otherwise be treated as the owner of the trust. These provisions are estimated to raise \$800 million through FY 1995.

- o In his FY 1992 budget, the President again proposed to reduce tax rates on capital gains (in a manner described in the *SII Joint Report*). The Treasury Department estimates that this would raise approximately \$9.5 billion through FY 1996. (See below, under measures to promote private saving, for a description of progress made to implement the President's plan to reduce tax rates on capital gains, including a proposal to resolve technical differences in the economic analysis of capital gains taxation.)
- o In his FY 1992 budget, the President again proposed to extend Medicare Hospital Insurance coverage to those state and local employees not currently covered would provide Medicare coverage for approximately 2 million state and local employees. The Treasury Department estimates that this would raise revenues of \$7.3 billion through FY 1996.
- o The following revenue measures, which were not described in the *SII Joint Report*, were proposed by the President in his FY 1992 budget (revenue estimates are those of the Treasury Department):
 - A number of miscellaneous proposals would, taken together, increase revenues by more than \$400 million through FY 1996. These include: an extension of abandoned mine reclamation fees; improving retail compliance with the special occupation taxes; increasing the HUD interstate land sales fee; and amending railroad unemployment insurance status.
- o The *SII Joint Report* described several IRS management reforms and opportunities for increased IRS enforcement that are expected to yield more revenue. These initiatives were begun during the past year, though some of their components were modified in order to improve on them. The increased revenues appear to be meeting projections, and the IRS expects to deliver on its five-year commitment to collect \$10 billion in additional revenue through FY 1995.
 - In addition, the President's budget for FY 1992 calls for additional IRS funding for tax law enforcement, and for the collection of delinquent taxes, penalties and interest. It is estimated that the expanded enforcement programs would yield approximately \$700 million through FY 1996.

Financial Safety and Soundness

Since the *SII Joint Report* was issued, substantial progress has been made to reduce the risks associated with Federal credit programs and the government's exposure in Federal insurance programs.

- o On April 30, 1991, the Department of the Treasury submitted its second report on the safety and soundness of the Government Sponsored Enterprises (GSEs). The report recommended improvements to the regulation of GSEs as well as authorizing the GSE regulators to promulgate risk-based capital standards. Legislation is expected to be introduced in mid-May.
- o In February 1991, the Secretary of the Treasury submitted to Congress his "Federal deposit insurance study". The study was broadened beyond its original mandate. The Secretary decided that consideration of Federal deposit insurance was most appropriately done within a wider analysis of how the banking system itself might be modernized. The study, *Modernizing the Financial System: Recommendations for Safe, More Competitive Banks*, put forward far-reaching proposals designed to protect depositors and taxpayers, serve consumers, and enhance the international competitiveness of U.S. banks.
- o In March 1991, the Administration's proposals for deposit insurance reform were submitted to the Congress as part of "The Financial Institutions Safety and Consumer Choice Act of 1991". The Secretary and other top Treasury officials have testified before several congressional committees about the Administration's banking reform proposals, which are now being actively considered by the Congress.

Private Sector: Incentives to Save and Invest

The Administration is working to promote private saving. The Administration strongly supports the measures to promote private saving that are described in the SII *Joint Report* and proposes these initiatives in the President's FY 1992 budget.

Update on Personal Saving

- o Though still below historical levels, the personal saving rate in the U.S. seems to be improving. It reached 4.6% in both 1989 and 1990, up from a post-Depression low of 2.9% in 1987.
- o In early 1990, saving appeared to be rising, averaging 4.9% in the first half of the year. In the second half, saving dropped to 4.2%, which could be related to the slowing of the economy.
- o It is fairly typical behavior for consumers to attempt to maintain their standard of living, and thus reduce saving, in the face of declining real income growth. Evidence from this recession need not be taken as a sign of a renewed downward trend in saving.

New Family Savings Accounts

- o The Administration's proposal to establish Family Savings Accounts (FSAs), introduced in 1990 as part of the Savings and Economic Growth Act (and described in the SII *Joint Report*), was not enacted last year.
- o The President's budget for FY 1992 again proposes to create FSAs, which it estimates would cost \$300 million in FY 1992 and \$6.5 billion through FY 1996.

Enhanced Individual Retirement Accounts

- o The Administration's proposal to enhance Individual Retirement Accounts (IRAs), introduced in 1990 as part of the Savings and Economic Growth Act (and described in the SII *Joint Report*), was not enacted last year.
- o The President's budget for FY 1992 again proposes to enhance IRAs, making them more attractive to savers. It is estimated that this would cost \$100 million in FY 1992 and \$400 million through FY 1996.

Lower Capital Gains Tax Rates

- o The Administration's proposal to lower tax rates on capital gains, introduced in 1990 as part of the Savings and Economic Growth Act (and described in the *SII Joint Report*), was not enacted last year.
- o The President's budget for FY 1992 again proposes to lower capital gains tax rates (as described in the *SII Joint Report*), which it estimates would gain \$3.0 billion in revenues in FY 1992 and \$9.5 billion in the period FY 1991-1996.
- o The Administration believes strongly that its proposal to cut capital gains tax rates would promote saving, entrepreneurial activity, and investment in new products, processes and industries. As was noted in the *Joint Report*, the President's proposal gives preferential tax treatment to longer-term commitments of capital in order to encourage business investment patterns that favor innovation and long-term growth over short-term profitability.
- o To the extent that the return to investors in corporate stock is obtained through appreciation in the value of the stock (rather than through dividend income), a reduction in capital gains tax rates would provide a form of relief from this double taxation of corporate income.
- o Some members of Congress have opposed the President's proposal on the basis of their differing assessment of its likely distributive, economic and revenue effects. In his State of the Union Address on January 29, 1991, the President asked Congressional leaders to cooperate with the Administration in a study led by the Federal Reserve Board Chairman to sort out technical differences in the economic analysis of capital gains taxation.

Tax Integration Study

This study was considerably delayed as a result of the protracted budget negotiations of 1990. Staff responsible for the tax integration study are the same people who were responsible for support at the negotiations. Work on the study continues and is expected to be completed late in 1991.

II. Corporation Investment Activities and Supply Capacity: Improvement of U.S. Competitiveness

In the *SII Joint Report*, it was noted that investment in U.S.-based production capacity, as well as the continued openness of the U.S. to foreign investment, would enhance the competitiveness of exports from the United States. Certain changes to U.S. laws and regulations were identified that would facilitate productive investment in the United States. Since June 1990, progress has been made to improve U.S. supply capacity in a number of ways.

Antitrust Reform

- o The Administration has forwarded to the 102nd Congress proposed legislation that will improve the legal climate for joint production ventures and reduce uncertainty about the treatment of such ventures under the antitrust laws. The Administration's bill, the Cooperative Production Act of 1991, would promote joint production ventures that enhance competition, while preserving antitrust safeguards against activities that on balance would harm competition and consumers.
- o The Administration actively encouraged enactment of similar legislation during the 101st Congress. In July 1990, Assistant Attorney General Rill testified in favor of the Administration-sponsored bill before the Antitrust Subcommittee of the United States Senate. The Administration's efforts resulted in substantial progress, including passage of similar legislation (H.R. 4611) by the U.S. House of Representatives.
- o The Administration's proposal, by extending the coverage of the National Cooperative Research Act to joint production ventures as well, would require courts reviewing antitrust challenges to particular joint production ventures to take into account the potential competitive benefits of such ventures. The bill would also limit antitrust liability to actual damages rather than the current treble damage liability where the parties to the venture notify the antitrust enforcement agencies of their activities.
- o Under the Administration's proposal, joint production ventures would receive the benefits of the law, regardless of the nationality of the owners or the location of the facilities.
- o The Administration will actively encourage early enactment of the Cooperative Production Act of 1991, and is optimistic that legislation will be enacted this year.

- o Upon enactment of this legislation, all stages of joint production -- from the beginning stage of joint R & D activities to the final stage of joint production -- would be covered by the 1984 National Cooperative Research Act, as amended. United States Government guidelines, either those in effect or those to be issued within a reasonable period of time after such enactment, will clarify the treatment of joint research and production activities under the antitrust laws. The United States Government would welcome comment on the scope and content of such guidelines.

Product Liability Reform

- o In the 101st Congress, the Administration strongly supported the changes that would have been made to our product liability system by S. 1400. The Administration believed that the bill was a moderate, reasonable and well-balanced package of reform measures. The bill would have encouraged innovation and improved international competitiveness. At the same time, it would have preserved essential protection for consumers. It would have improved competitiveness by adding a degree of uniformity, certainty and predictability that has been missing under the existing product liability system.
- o The bill will be reconsidered as S. 640 in the 102nd Congress. It is a bipartisan measure with 30 cosponsors. Product liability reform continues to be a priority of the Administration. A strong effort will be made in the next few months to secure Senate passage of this measure.

Policy Toward Foreign Direct Investment

- o United States policy toward foreign direct investment has long recognized that a free flow of investment capital across borders benefits both host and investor countries. The United States generally provides non-discriminatory treatment of foreign investors under U.S. laws and regulations. It is in the interest of U.S. consumers, workers and investors to maintain this open and non-discriminatory policy.

- o The 1991 *Economic Report of the President* once again made plain this firm Administration commitment to an open investment policy. The President's report said:

The Administration supports maintaining an open foreign investment policy, with limited exceptions related to national security. This policy produces the greatest possible national benefits from all investments made in the U.S. economy. The United States has long recognized that unhindered international investment is beneficial to all nations, that it is a "positive sum game."

- o The Administration reaffirms its commitment to issue a detailed policy statement reiterating its continued strong commitment to an open direct investment policy for foreign direct investment in the United States and to global investment regimes which enable the free flow of direct investment capital. The Administration notes the delay in the issuance of this statement, and commits to issue it as soon as practical following release of the *SII Annual Report*.
- o For over 200 years, the United States has welcomed foreign investment and, at the same time, protected vital national security concerns. The Exon-Florio provision of the Omnibus Trade Act of 1988, which authorized the President to prohibit foreign acquisitions that threaten to impair the national security, is consistent with this longstanding policy. It has reserved certain sectors under the OECD Code on Liberalization of Capital Movements.
- o The President delegated his authority to review foreign acquisitions that might impair the national security to the Committee on Foreign Investment in the United States (CFIUS). As of May 15, 1991, CFIUS had reviewed over 560 transactions, formally investigated twelve of them, and referred eight to the President for a decision. Since Exon-Florio came into effect in 1988, the President has prohibited only one transaction pursuant to this law.
- o Exon-Florio authority lapsed, along with certain other provisions of the Defense Production Act, on October 20, 1990, and is expected to be renewed in the near future. The Administration is prepared to publish final regulations for implementation of the Exon-Florio provision upon renewal of the legislation.

- o The Administration has opposed and will continue to oppose legislation which would not be consonant with the general U.S. policy of openness toward foreign direct investment in the United States, including S. 625 which would require reciprocal responses to foreign practices that deny national treatment to U.S. investment, or such bills as would require registration or disclosure of foreign direct investment in the U.S.

Tax Treatment of Foreign Investors

- o The United States and Japan have entered into a bilateral income tax treaty that provides for non-discriminatory treatment of business enterprises of the two countries.
- o The Treasury Department has worked closely with Congress to ensure that taxation of foreign-owned corporations complies with U.S. treaty obligations of non-discriminatory treatment.
- o The new U.S. tax compliance measures imposed on foreign-owned corporations in 1989 and 1990 aim at ensuring that, in their overall effect, the provisions afford the IRS with comparable access to relevant tax information in audits of both foreign- and U.S.-owned corporations.
 - On December 10, 1990, the Treasury Department published proposed regulations to implement the new compliance rules. The proposed rules contain appropriate measures to ensure that they are applied in a reasonable and non-discriminatory manner.
 - The regulations were issued in proposed form in order to solicit public comments prior to the issuance of final rules. The Treasury Department has now received more than sixty comments on the proposed regulations from taxpayers and foreign governments. A public hearing on the regulations was held on February 22, 1991.
 - The Treasury Department has discussed the legislation and the regulations in meetings and correspondence with the Japanese Ministry of Finance and National Tax Administration, as well as with the OECD and other treaty partners.
 - The comments received by the Treasury Department will be given full consideration prior to the issuance of final regulations. Final regulations should be issued in the near future.

- The Treasury Department intends to implement these new rules with appropriate procedural protections and with the fullest consideration of the U.S.-Japan Tax Treaty.
- o The Administration continues to seek to ensure that Japanese investors will be given non-discriminatory treatment under the U.S.-Japan Tax Treaty.

Other Measures to Build Supply Capacity

- o The 1990 Omnibus Budget Reconciliation Act (OBRA90) provided significant tax incentives to promote oil and gas exploration, production from marginal properties, and enhanced recovery. Under OBRA90, tax credits for non-conventional fuel sources have been continued. Incentives for ethanol have been modified and extended. These energy production incentives are estimated to be worth \$2.0 billion during FYs 1991-1995.
- o The President's Council on Competitiveness, chaired by the Vice President, continues to seek ways to relieve the burden imposed on the nation's economy by unnecessary regulation.
- o Since publication of the SII *Joint Report*, the Council on Competitiveness has issued (on February 19, 1991) its *Report on National Biotechnology Policy*. The report describes the competitive status of the U.S. biotechnology industry and outlines the Administration's policy to support free market development of biotechnology products. This includes efforts to:
 - ensure that regulations and guidelines affecting biotechnology are based solely on the potential risks and are carefully constructed and monitored to avoid excessive restrictions that curtail the benefits of biotechnology to society;
 - continue to oppose fundamental legislative changes to the Orphan Drug Program that undermine the economic incentives to produce new drugs for rare diseases;
 - support passage of legislation to provide necessary process patent protection for products, such as those in the biotechnology area, which can be protected only through process patents.

III. Corporate Behavior

Since publication of the *SII Joint Report*, the Administration continues to pursue policies which will encourage managers to take decisions that will benefit their companies in the long-term and thereby making them more competitive.

Long-term Outlook

- o As part of the Administration's ongoing efforts to promote U.S. competitiveness and to facilitate lower capital costs in the U.S., the Treasury Department reviewed factors that affect the U.S. corporate sector's investment horizons. Improving the relationship between managers and shareholders could reduce equity capital costs, thereby strengthening competitiveness.
- o This review further determined that there are a number of steps which the private sector could take that would strengthen the U.S. corporate governance system. Such suggestions have been disseminated through speeches given by senior Treasury officials and through discussions between Treasury officials and private sector managers. Suggestions include:
 - strengthening boards of directors by limiting membership in nomination, compensation and audit committees to non-management directors.
 - establishing executive compensation plans that are directly tied to long-term company performance, including more significant equity ownership by management.
- o In order to strengthen the accountability of management to shareholders, the SEC is conducting a review of the proxy system that governs shareholder voting. The SEC expects to make recommendations for changes to the system late in 1991.
- o In addition, the Department of Labor, which oversees the regulation of private pension funds, is taking steps to ensure that pension plan fiduciaries are voting plan-owned shares in accordance with the fiduciary responsibility standards of the Employee Retirement Income Security Act of 1974 (ERISA). Steps include:
 - Over the last several years, the Labor Department issued several letters (Carter-Hawley-Hale, Avon, Polaroid) which discussed the responsibilities of fiduciaries of pension plans with respect to the voting of proxies.

- In 1989, the Labor Department conducted a review of the proxy voting procedures of investment managers. A similar review of bank trustees procedures was recently completed.
- The Labor Department introduced an ERISA Enforcement proposal during the last session of Congress that included a proposal for investment managers to maintain a written proxy voting policy and supply it to pension plan administrators. The Department is currently reviewing the entire enforcement proposal prior to its reintroduction.
- o Another way the Administration is facilitating a long-term outlook by corporate managers is through the Financing Technology Roundtable (FTR). The purpose of the FTR is to examine ways in which the government and private sector can remove barriers to a lower cost of capital and funding for U.S. technology.
 - The FTR was initiated by the Departments of Treasury and Commerce. It is comprised of chief executives and financial officers of both small and large companies, pension fund managers, venture capitalists, academics, and senior Treasury and Commerce Department officials.
 - The first FTR was held on January 16, 1991 and focused on identifying barriers -- such as government regulations and certain accounting standards -- that U.S. companies face in raising funds for technology investments. The second roundtable was held on April 10th and addressed the challenges that small companies in particular have in raising funds, as well as on potential solutions to those challenges. The third roundtable is scheduled for July 24th and will address the barriers that managers of large companies face in undertaking long-term investments on that date.
 - The Departments of Treasury and Commerce expect to publish a report summarizing the conclusions and recommendations of these roundtables later in the year. The USG will take steps, if appropriate, to implement these recommendations.

Cost of Capital

- o A review of factors affecting the cost of capital has been completed. The findings of this review have been made public through speeches given by senior Treasury Department officials. A high cost of capital discourages capital formation and, thus, it is important that the U.S. Government take steps to facilitate lower capital costs.
- o Recommendations include the importance of:
 - Increasing the U.S. personal savings rate.
 - Increasing total U.S. savings by reducing Federal dissaving.
 - Reducing tax rates on capital gains.
 - Financial institutions reform to improve the competitive position of U.S. banks.
 - Initiating greater convergence in international accounting and disclosure standards to ensure that accounting standards do not create unnecessary barriers to capital flows.
 - Capital markets reform to promote greater efficiency, liquidity and stability in U.S. capital markets.
 - Harmonizing State and Federal regulations to reduce duplication of filing efforts at Federal and State levels.
- o Since publication of the *SII Joint Report*, the Administration has taken the following measures to facilitate lower capital costs:
 - **Personal Savings.** To increase the U.S. personal saving rate, the President has re-proposed the creation of Family Savings Accounts and enhanced IRAs in his FY 1992 budget.
 - **Federal Dissavings.** To reduce Federal dissaving, the Omnibus Budget Reconciliation Act of 1990 put into place a plan to reduce projected Federal budget deficits by a total of almost \$500 billion over the next five years compared with what these otherwise would have been.
 - **Capital Gains.** The President has re-proposed a reduction in tax rates on capital gains in his FY 1992 budget.

- **Financial Institutions Reform.** The Treasury Department completed its study of deposit insurance and financial services reform and has proposed comprehensive legislation aimed at reforming and improving the competitiveness of the U.S. banking system.
- **Accounting Standards.** Significant efforts by the Treasury and the SEC continue to promote convergence of accounting and disclosure standards among major markets to facilitate efficient flows of capital. Enhanced comparability of such standards could lead to use of a single disclosure document by an issuer to raise capital around the world, and would promote more efficient capital allocation. The SEC has initiated discussions with various jurisdictions to develop systems for mutual acceptance of documents prepared according to regulations of an issuer's home country based on comparability of disclosure. The first of such systems, with the Canadian provinces, is scheduled for completion in June. In addition, the Commission has actively supported the efforts of several international organizations working to develop international accounting and auditing standards that could be used in cross-border offerings and listings.
- **Financial Market Reform.** To promote greater efficiency, liquidity, and stability in U.S. capital markets, the U.S. Government enacted into law on October 16, 1990 the "Market Reform Act of 1990". This legislation enhances the SEC's ability to respond to emergency situations characterized by volatility in securities prices.

In addition, the Senate recently passed a bill that allows the Federal Reserve to establish margins on futures, and makes modest improvements to the exclusivity clause of the Commodity Exchange Act. It is expected that the Senate and House will soon meet in conference to resolve their differences.

- **Securities Regulation and Registration.** To reduce redundant registration and other filing requirements, the Treasury Department and the SEC have begun a review of State and Federal securities regulation. Reduction of redundant State filing and review requirements would allow a reallocation of State resources to inspection, investigation and prevention of fraud efforts, and would lower compliance costs and minimize other impediments to the free flow of capital within the United States. No specific time frame has been established for the completion of recommendations.

IV. Government Regulation

Since publication of the *SII Joint Report*, progress has been made to deregulate certain controls on both exports and imports that tend to discourage international trade and competition.

Export Deregulation

- o In view of the changing strategic situation, the U.S. and its allies on the Coordinating Committee for Multilateral Export Controls (COCOM) agreed to streamline export controls during the June 1990 high-level meeting. COCOM discussed in particular the liberalization of export controls in machine tools, telecommunications and computers. In addition, COCOM agreed to delete thirty entries entirely from the Industrial List.
- o These measures were adopted as the first step to reducing the number of controlled goods. These changes in multilateral export controls were implemented by the United States on June 29, 1990.
- o COCOM also agreed to create a new Core List of strategic commodities which would further narrow the scope of controls in eight categories. The development of the Core List is nearing completion. It is hoped that COCOM will adopt this new list late in May, 1991, so that it can be implemented this summer.
- o COCOM has also agreed to guidelines for member countries to eliminate most licensing requirements for trade among COCOM member countries. The United States published an interim rule covering General License Intra-COCOM Trade (GCT) on June 20, 1990.
 - The interim regulation (GCT) removed individual validated licensing requirements from all but 15 categories of goods controlled for national security reasons, and 22 categories of goods controlled for missile technology proliferation reasons. Most of these categories are only partially excluded from GCT eligibility.
 - This regulation was published in connection with the COCOM agreement to harmonize export control licensing procedures and implement a Common Standard level of enforcement "protection". The regulation incorporates COCOM-agreed procedural safeguards and an exclusion list of commodities.

- We are especially pleased with the constructive contribution Japan has made to COCOM that enabled us to harmonize our application of this regulation.
- o President Bush directed in a November memorandum that the U.S. would eliminate all dual-use export licenses that are currently required under Section 5 of the Export Administration Act to COCOM-member countries, consistent with multilateral arrangements. The U.S. is working toward meeting the goal of a license-free COCOM. One of the requirements of a true license-free COCOM is the implementation by all members of the Common Standard. The current strict export controls imposed by some countries such as Japan and the U.S. meet the requirement of the standard.

Progress on Removing Re-export Controls

- o The U.S. Government is reviewing and will consider changing its export control scheme to allow exports of strategic products and technology by those countries such as Japan which impose strict export control on those items without a U.S. re-export licensing requirement irrespective of their destination. Draft regulations have been prepared.
- o Currently, no re-export controls on goods being shipped from COCOM-member countries to countries outside of COCOM have been removed. However, U.S. re-export authorization is no longer required for U.S.-origin goods and technology being shipped from one COCOM member country to another or to certain cooperating countries. In addition, the regulation was amended on January 15, 1991, so that the notification requirement for re-exports among participating countries was deleted.
- o A regulation has been formulated to eliminate re-export authorization for U.S.-origin goods and technology being shipped from COCOM member countries to countries outside of COCOM. We expect to implement this regulation later this year. Re-export authorization may be retained on items controlled for non-proliferation concerns, paying attention not to unduly hinder legitimate trade.

Progress on Import Liberalization

- o On July 25, 1989, President Bush announced the Steel Trade Liberalization Program to phase out the voluntary restraint agreements (VRA) after two and a half years and to negotiate the elimination of subsidies and other trade distorting practices affecting steel. This program reflects the President's commitment to a meaningful international consensus and to freer and fairer trade in steel on a global basis. The U.S. Government is focusing its efforts on developing this international consensus during the Uruguay Round negotiations. It is hoped that an agreement will be reached before the fall of 1991.
- Both the U.S. and Japan have been participating in the negotiation of a multilateral steel consensus to eliminate subsidies and other trade distorting practices affecting world steel trade. U.S. and Japanese officials met to discuss this subject in September, 1990. The proposed multilateral agreement is based on the disciplines contained in the bilateral consensus agreements currently in effect with the United States' major steel trading partners.
- o VRAs on machine tools, which began on January 1, 1987, are due to expire on December 31, 1991. Combined spending on research and new product development totaled \$166.3 million in 1989, or 4.9 percent of gross sales. Many machine tool companies have introduced major new models of machining centers, milling machines, lathes and punching machines.
- In May 1990, the United States and Japan negotiated a Cooperation Plan on machine tools aimed at contributing to efforts to revitalize the U.S. industry. The objectives of the Cooperation Plan are to increase market opportunities for U.S. machine tools and components to Japan and Japanese transplant facilities in the United States, and to facilitate long-term business relationships between U.S. suppliers and Japanese buyers.
- Cooperation Plan events were held in September 1990 at the International Manufacturing Technology Show in Chicago, in October 1990 at the Japan International Machine Tool Fair in Osaka, and in Detroit in May 1991. These events consisted of presentations by U.S. firms of machine tool products, panel discussions on how to sell in the Japanese market and one-on-one meetings between potential buyers and sellers. The Detroit events also consisted of visits to U.S. machine tool production facilities.

V. Research and Development

The *SII Joint Report* noted that a steady stream of innovative ideas and technological developments would enable the United States to remain a formidable competitor in international markets. The report described several initiatives proposed by the Administration that would promote U.S. research and development through both public and private sector efforts. Substantial progress has been made with each of these initiatives since the publication of the report.

Federally-supported Research and Development

- o Federal support for research and development (R&D) in FY 1991 increased by \$0.8 billion, to a record level of approximately \$67.2 billion.
 - Support for civilian R&D was increased by 11%, to more than \$28 billion.
 - Support for defense-related R&D was decreased by 5%, to approximately \$38.8 billion.
 - Spending on Federal civil space activities was increased by 12%.
- o The President's FY 1992 budget calls for an \$8 billion increase in Federal funding for research and development, to a record high of \$76 billion. Under the President's plan, support for civilian R&D would increase by 10% and defense-related R&D would increase by 15%.
- o A 15% proposed increase for Federal civil space activities includes a 12% increase for manned exploration, an 8% increase for space station development, and a 24% increase for the global change research program.
- o Part of the \$8 billion expansion in Federal R&D spending is devoted to an 18% funding increase for the National Science Foundation. The Administration remains committed to doubling the NSF budget by 1993 (FY 1994).

Support for Private Research and Development

As described in the *SII Joint Report*, the Administration maintains that private research and development would be bolstered by lowering the cost of capital and reducing regulatory and legal barriers to investment.

- o Under OBRA90, the research and experimentation tax credit and the tax rules governing the allocation of foreign and domestic R&D expenditures were extended through the end of 1991.
- o The President's FY 1992 budget again proposes a permanent extension of the research and experimentation tax credit and a one-year extension of the allocation rules.
- o With regard to the Advance Technology Program, the General Counsel of the Commerce Department wrote a letter on April 23, 1991 to the Chairman of the House Committee on Science, Space and Technology expressing the Administration's objections to the foreign participation provisions in Title II of the American Technology Preeminence Act of 1991. The letter urged the Committee to take these objections into account in its mark-up.

Adoption of the Metric System

- o The updated "Metric Conversion Policy for Federal Agencies" was published in the *Federal Register* on January 2, 1991. The new policy includes stronger guidance for Federal metric implementation and stronger reporting requirements to Congress. It also endows Federal agencies with a new metric transition leadership role vis-à-vis private industry.
- o The Metric Conversion Policy calls for agencies to implement timetables for conversion to the metric system in all their procurement and contracting. The Policy does not specifically name a deadline for completion of these timetables, but creation of such a deadline is under active consideration.
- o Once Federal agencies have successfully converted to metric, this will have a significant impact on the private sector through the procurement and contracting process; firms wishing to compete for government contracts will have to possess the ability to produce in metric.

- o The Department of Commerce, in its export promotion efforts, counsels firms to convert to use of metric in order to increase their international competitiveness.
- o Other agency efforts to encourage metric conversion include a regularly scheduled metric orientation course offered by the General Services Administration in Washington, D.C. Similar courses are offered upon request throughout the country and for individual agencies.
- o Federal agencies have provided Congress with 1991 annual progress reports outlining their efforts and future plans to implement use of the metric system. All agencies have reported that they are proceeding with metric usage initiatives, and several smaller agencies have even indicated that they have already completed implementation of required metric usage.
- o In addition to individual agency progress reports, the Department of Commerce is preparing a report on the activities of the Interagency Council on Metric Policy (ICMP) and its subcommittees. This report is expected to be available in July 1991.
- o The Department of Commerce also works to encourage metric conversion efforts at the State level through the National Council on State Metrication (NCSM).
- o New appointments by the Governors to the National Council on State Metrication (NCSM) have been requested and confirmed, and the Secretary of Commerce has requested that the Governors continue their support for Federal-State cooperation in implementation of the policy of preference for metric usage in United States trade and commerce.
- o The NCSM will hold a national meeting in Philadelphia on July 19, 1991, to discuss new initiatives aimed at increasing metric usage at the State and local level.
- o The U.S. Government recognizes that increases in private sector metrication are essentially important and that metric usage in general is paced by the degree of metric usage in the private sector and the ability and willingness of private business to adopt metric usage. The Department of Commerce will continue to study ways for the private sector to expand and increase significantly the use of the metric system.
- o The U.S. Government welcomes comments by the GOJ regarding its progress reports on implementation of SII commitments and future plans and, as appropriate, will consider these comments.

VI. Export Promotion

President Bush has accorded a high priority to trade promotion. A year ago, the President called upon the Economic Policy Council to undertake a "Commercial Opportunities Initiative" and announced the formation of the Trade Promotion Coordinating Committee (TPCC). The TPCC, chaired by the Secretary of Commerce, is a 17-member, inter-agency group which coordinates government programs that assist U.S. business and industry to compete in global markets.

Under the auspices of the TPCC, Commerce Department officials are participating in a nationwide series of export initiative seminars to raise the awareness of export opportunities and USG export promotion services. The Secretary of Commerce has led TPCC-sponsored trade missions to Latin America, Southeast Asia, and the Soviet Union.

Overview of Export Promotion Efforts

- o The main provider of Commerce Department export promotion services, the U.S. and Foreign Commercial Service (US&FCS), has completed a full-scale strategic review of its mission, its operations, and its goals. As a result, the US&FCS has redefined many of its products and services to make them more useful and timely; initiated new products and services, both worldwide and tailored to specific markets; and placed heavier emphasis on market information, in-depth counseling, and advocacy on behalf of U.S. exporters and export-ready firms.
- o Almost all of the information products from the US&FCS are now available on a worldwide basis. The production of internal and contract Industry Subsector Analyses in FY 1991 will exceed the previous year's output by 40 percent, and special emphasis has been placed on this market research in Japan and Central Europe.
 - Several new products are being introduced in FY 1991 -- Best Prospects, Best Markets, Export Assistance Plans, the National Trade Data Bank, the Automatic Export Counselor -- and a product manager concept has been introduced to ensure high quality and consistency.
- o To assist U.S. businesses in securing procurement contracts associated with overseas development projects, the Commerce Department has placed procurement officers at the Inter-American Development Bank, the World Bank, the Asian Development Bank, and the African Development Bank. A position at the European Bank for Reconstruction and Development has been requested.

- o The United States Government welcomes the agreements in 1991 by the Export-Import Bank of the U.S. with the Export-Import Insurance Division (EID)/MITI and the Export-Import Bank of Japan. These agreements establish a broad framework for cooperation with financing facilities which can contribute to U.S. exports.
- o To provide assistance to U.S. businesses pursuing opportunities in new and expanding markets, US&FCS opened offices in Berlin, Prague, and the European Economic Community Headquarters in Brussels.
 - US&FCS/Panama was reopened soon after the fall of Noriega in 1989 and US&FCS/Kuwait reopened on March 25, 1991, shortly after the liberation of that country. US&FCS/Saudi Arabia, in place throughout the Gulf War, is geared up, with enhanced staff (permanent and temporary duty), for post-war opportunities.
 - US&FCS staff have also been increased in Japan, at the American Institute in Taiwan in Taipei, and at several Eastern European posts. Additional staff increases in FY 1991 and FY 1992 have been requested at a number of US&FCS posts worldwide.
- o The International Trade Administration (ITA) recently reorganized to create a "Latin America/Caribbean Business Development Center." The Center is responsible for expanding and facilitating private sector business development in that region through trade and investment promotion projects and related events.
- o The "Single Internal Market Information Service" was established to provide information, analysis, and advice to U.S. companies about the opportunities created by "EC-1992", and has special assistance available for small and medium firms.
- o ITA is also providing U.S. businesses with up-to-date information on the business opportunities opening up in Eastern Europe. ITA has opened an "Eastern Europe Business Information Center" to act as a clearinghouse for information on Eastern Europe and a contact point for American firms.
 - In September 1990, 47 new Industry Subsector Analyses were contracted for in the Soviet Union and countries of Central Europe, increasing research available on these markets nearly ten-fold over the previous year. US&FCS has opened new offices in Berlin and Prague, and is looking at opening in Sofia and other locations in the Soviet Union.

Japan Export Promotion Program

Japan is the focus of the most important export promotion program of the US&FCS. The major elements of these initiatives include: (1) general trade facilitation, particularly for small and medium-sized U.S. exporters; (2) the Japan Corporate Program; and (3) the USDOC-MITI "Joint Trade Expansion Program".

- o Under the general trade facilitation element of the Commerce Department's "Japan Export Promotion Program," US&FCS added ten new positions to its Japan staff, expanded market research efforts, including 36 contracted studies and 40 in-house studies; improved and expanded Japan market entry assistance programs and business counselling; and developed a program for increased utilization of the U.S. Trade Center exhibition facilities.
- o The U.S. Department of Commerce has offices throughout the United States, including in Washington D.C. and four cities in Japan with knowledgeable staff, trade libraries, and trade databases to assist U.S. exporters learn about Japan's import procedures.
- o The Japan Corporate Program, another element of the Commerce Department's Japan Export Promotion Program, formalizes the relationship of the Commerce Department with 20 U.S. companies that are ready to commit substantial resources to expand their sales in Japan. These companies and the Department have joined together in a five-year commitment, which seeks to help these firms develop an export marketing strategy for Japan that can be used as a model by other companies.
 - Last month, the Secretary of Commerce led a mission of 14 Corporate Program CEOs to Japan to launch the endeavor formally. The visit was a solid success, with the Japanese Government showing strong support for the companies and the program's objectives.
- o The cooperative efforts of US&FCS, MITI, JETRO (Japan External Trade Organization) and MIPRO (Manufactured Importing Promotion Organization) under the Joint Trade Expansion Program were extended for another two years by the Secretary of Commerce and the MITI Minister. Data and information exchange, market research, trade events and trade facilitation services comprise the areas of cooperation. Some of the activities being carried out under the aegis of the program include:
 - JETRO is providing ten market research reports during 1991;

- JETRO industry experts, assigned to individual state and local business development offices in the United States, are cooperating with US&FCS District Offices to conduct export counseling programs at various locations;
- U.S. trade exhibitions and missions are being planned, including a reprise of the highly successful "Software Systems USA" show in which US&FCS, Trade Development, JETRO and MIPRO highlighted the products of 36 new-to-market firms.
- o MITI, JETRO and MIPRO have provided assistance in support of a number of USDOC-sponsored trade events:
 - American Seafood Buying Mission, Boston, March 19-28, 1990;
 - 30th Tokyo International Gift Show (U.S. mission), September 4-6, 1990;
 - Microwave USA '90, Tokyo, September 18-21, 1990;
 - American Furniture Manufacturers Association IOGA Mission to Tokyo and Osaka, November 28-December 2, 1990;
 - Wisconsin State Export Mission, November 25-28, 1990;
 - American Fashion '91, Tokyo, February 13-15, 1991; and
 - U.S. Jewelry Mission to Tokyo, February 26-28, 1991.
- o The U.S. Department of Commerce and MITI, JETRO and MIPRO have jointly organized three trade events:
 - Software Systems USA '90, Tokyo, October 2-5, 1990;
 - LEO (Laser Electro Optics) USA '90, Tokyo, November 13-16, 1990; and
 - BISIEX USA '91, Tokyo, February 5-7, 1991.
- o The U.S. Department of Commerce has provided assistance in support of a number of trade events sponsored by MITI, JETRO and MIPRO:
 - SBA Export Expo '90 Buying Mission, Seattle, March 26-April 1, 1990;

- JETRO Export to Japan Study Program, March, June, August, November 1990 and February 1991;
 - New Import Business Exhibition '90, Tokyo, October 1-4, 1990;
 - Import Promotion Product Shows, Nagoya, Tokyo and Osaka, October 1990 and February 1991;
 - JETRO Import Fair: Health Care '91, March 13-16, 1991.
- o The U.S. Department of Commerce will provide information in the second follow-up year about the progress realized under the export promotion efforts.

VII. Work Force Education and Training

As noted in the *SII Joint Report*, improving the education and training of the U.S. work force would heighten America's competitiveness. During the past year, the President and the Nation's Governors have made education and training of the work force a priority. The United States has fulfilled -- and in some cases surpassed -- commitments made in the *Joint Report* to improve work force quality.

Work Force Education

National Education Goals

- o The President and the Nation's Governors agreed to six education goals: 1) all children will start school ready to learn; 2) testing that competence has been achieved at appropriate grade levels in key subject areas such as mathematics and English; 3) a high school graduation rate of 90 percent or more; 4) world preeminence in math and science scholastic achievement; 5) full adult literacy; and 6) schools free of drugs and violence.

America 2000

- o On April 18, 1991, the President outlined his strategy to achieve the national education goals. The President calls his strategy "America 2000," and he cited four related themes: 1) better and more accountable schools for today's students; 2) new types of schools for future students; 3) promotion of life-long learning; and 4) community and family support for learning. Many of the initiatives mentioned below will be part of the President's American 2000 Excellence in Education Act of 1991 which the President will urge the Congress to adopt in this Congressional session.

Better and More Accountable Schools

- The President, the nation's Governors, and Congressional leaders established a panel to oversee the progress in meeting the National Education Goals. The panel is responsible for determining the indicators used to measure the national education goals and for reporting progress in five core subjects: English, mathematics, science, history, and geography. Beginning in September 1991, the panel will issue a "report card" to the Nation on the anniversary of the Education Summit.
- A system of "new world standards" will be developed for educational achievement.

- A system of voluntary examinations will be developed around the new standards and made available by 1993 to all fourth, eighth, and twelfth grade students in the five core subjects.
- As part of the America 2000 Excellence in Education Act of 1991, the President will seek again the authority that will allow greater flexibility in the use of Federal resources for education in exchange for greater accountability for results.
- Mathematics and science education will be promoted in the America 2000 Excellence in Education Act of 1991 with \$40 million in new monies for grants to school districts that show significant gains in student achievement in those subjects.
- Funds will be sought for a Merit School Program for States to award individual schools that demonstrate significant student progress toward the national education goals.
- The President will promote State and local choice programs as means to achieve greater efficiency and accountability as part of his America 2000 Excellence in Education Act of 1991 with a \$200 million program to provide incentives to local school districts that allow greater parental choice, \$30 million for national school demonstration projects, and needed changes in the major components of compensatory education and block grant payments.

New Types of Schools for Future Students

- A series of research and development teams, funded by contributions of \$200 million from the business community, will help design a new generation of American schools.
- The President will ask Congress to provide \$550 million for a one-time grant to create at least 535 "new generation" schools that will highlight new directions that other schools might take. The objective of this initiative is to allow 535 communities to develop how they can best achieve international standards in education.

Promotion of Life-long Learning

- The President will seek greater accountability and choice in the Adult Education Act and will promote these principles in new adult literacy activities proposed in the America 2000 Excellence in Education Act of 1991.
- The White House Domestic Policy Council will review current Federal job training efforts and identify successful ways of motivating and enabling individuals to receive the comprehensive services, education, and skills necessary to achieve economic independence.
- The Secretaries of Education and Labor will convene business and labor leaders, education and training experts, and Federal, State, and local government officials at a national conference on the education of adult Americans.

Community Support

- The Secretary of Education will designate America 2000 communities, areas committed to the national goals and with strategies for achieving these goals.
- The Domestic Policy Council will work with the Governors and other State and local officials to maximize program flexibility in meeting the needs of children and communities, including exploring ways to streamline eligibility requirements, integrate services, and reduce "red tape".

Federal Funding for Education

- o The Department of Education's budget for FY 1991 is \$27.1 billion, compared to \$24.7 billion appropriated for FY 1990. Federal spending on pre-college education is traditionally less than 10 percent of the national total, with the remainder provided by State and local governments.
- o For FY 1992, the President's Budget has proposed a \$2.6 billion increase in budget authority for the Department of Education. This includes \$690 million to implement the President's proposed America 2000 Excellence in Education Act. As was the case last year, the President's budget includes increases for programs providing assistance for those most in need -- the disadvantaged, the handicapped, minorities, and needy college students.

Science and Mathematics Education

- o The Administration has established a Committee on Education and Human Resources (CEHR) under the Federal Coordinating Council on Science, Engineering and Technology. The CEHR has completed Phase I of its work which included a comprehensive inventory of existing government programs related to mathematics, science and technical education. CEHR also established funding priorities and prepared a crosscutting budget for Federal programs.
- o A working group of the CEHR is currently conducting a review of the program inventory and integrated budget that were developed for the FY 1992 budget process. This review will lead to a strategic plan for achieving the implementation priorities -- pre-college, undergraduate, graduate, general public -- identified in Phase I.
 - Since January 1991, the CEHR Working Group has been holding weekly meetings where each of the 15 agencies involved described their initiatives to promote mathematics and science education.
 - In June 1991, CEHR members will review progress with emphasis given to possible collaborative efforts and how better integration might occur.

- The Office of Management and Budget has issued "Terms of Reference" to develop a FY 1993 budget submission on how to fund a five year strategic plan. Agency submissions must include how evaluation of the effectiveness of programs is to be determined. A first draft of the strategic plan is due by the end of June 1991.

Community Colleges

- o The U.S. continues to emphasize the importance of the community colleges in building a quality work force. Communities across the United States are building formal links with local employers to ensure that graduates will have skills that meet the demands of the local job market.
- During their tour of the U.S., the Human Resource Delegation from Japan visited two community colleges where they learned how workers are retrained, e.g., in computer-aided design skills and the role of the community college in offering a "second chance" to those who desire to re/enter the work force.
- As part of the reauthorization of the Carl Perkins Vocational and Applied Technology Education Act, a "tech prep" program is created with a funding authorization of \$125 million in FY 1991. This program promotes linking a student's high school vocational training with continued training at community college or post secondary school.

Work Force Training

The U.S. Department of Labor -- through the appropriate channels -- has provided the Japanese Ministry of Labor with timely updates on the progress that has been made in the areas mentioned below.

Job Training Partnership Act

- o The Job Training Partnership Act (JTPA) is a highly effective program and, in FY 1991, \$4.1 billion is available for the existing JTPA programs. This amount represents a 3.8 percent increase over last year.
- o A broad, bipartisan consensus has emerged between the Administration and Congress on changes that are needed in the JTPA program. This consensus was demonstrated late last year in the passage of the JTPA amendments by the House and Senate with only two votes in opposition. An impasse over the impact of the funds allocation formula, the press of other business, and the rush to adjournment, did not allow sufficient time for differences to be resolved.
- o On May 9, 1991, the Secretary of Labor testified to renew the Administration's commitment to amending the JTPA. Toward this goal, the President is submitting new legislation which reflects some features of the House and Senate bills passed last year. The Administration is hopeful that the Congress will produce a bill that the President can sign this year.
- o Since publication of the *SII Joint Report*, the Department of Labor has also published *Portraits of Progress* which provides a close-up of individuals whose lives have been dramatically improved as a result of JTPA.

Work Force Quality Action Program

The Department of Labor will help to implement the President's America 2000 strategy to promote life-long learning. The Department of Labor's initiatives have been incorporated into the overall America 2000 strategy to avoid duplication.

- o Progress on School-to-Work programs is as follows:
 - The Secretaries of Labor and Education held a joint meeting with industry and labor leaders to discuss how business, government and labor can assist non-college bound youth make the transition from school to work.

- The Departments published the proceedings of this two day conference and have distributed thousands of copies to our Nation's schools, chambers of commerce and union halls.
- On September 13, 1990, the Secretary of Labor announced grants totalling \$10.5 million to fund School-to-Work demonstration projects. These six projects were the result of recommendations from the two day conference. Both Federal and private funds will be invested in an effort to raise educational standards and revamp school curricula. Specific work-based programs will be put in place so that students learn job-related subjects in a practical context.
- o Progress by the Secretary's Commission on Achieving Necessary Skills (SCANS) is as follows:
 - The SCANS Report will advise the Secretary of Labor on the level of basic skills required to enter employment and how the Nation can obtain higher basic skills in the work force.
 - As the U.S. pledged in the *SII Joint Report*, the SCANS has maintained its rigorous schedule and will report its findings to the Secretary of Labor in June 1991 and the U.S. Department of Labor will provide copies of this report when they are made public.
 - For the past 12 months, the Commission's Chairman and its other members have interviewed hundreds of workers, employers, and academics to explore why many young people leave school without the skills that most employers require.
- o Progress on the Labor Investing for Tomorrow (LIFT) program is as follows:
 - As promised in the *SII Joint Report*, the Secretary of Labor presented her first "LIFT" awards to sixteen business and public organizations who have created model programs to upgrade the skills of the American work force. The awards were made in four categories: Business-School Partnerships; School-to-Work Programs; Employee Training Programs; and Employee Worklife Programs. The Secretary of Labor plans to present the "LIFT" Award again in the Fall of 1991.

- o Progress on the Work Force Clearinghouse is as follows:
 - On September 19, 1990, the Department of Labor inaugurated the "Work Force Quality Clearinghouse." This free service to employers is providing information on innovative practices such as child care, flextime, and benefits. The Clearinghouse currently comprises 100 examples of "model" programs/practices that employers have successfully implemented. Since inauguration, hundreds of employers have used this service.
- o Progress on Partner's for Tomorrow Program is as follows:
 - The Secretary of Labor has actively encouraged employers and workers to volunteer in one-on-one mentoring of youth, especially those in danger of dropping out of school. As part of the Secretary's interest in creating a model work place, the Department has successfully encouraged its employees to actively volunteer in their own mentoring programs.
- o Progress by the National Advisory Board on Work-Based Learning is as follows:
 - The Secretary of Labor announced on October 17, 1990 the appointment of the Chairman and members of the National Advisory Board on Work-Based Learning. The Chairman is the Chief Executive Officer of U.S. West, Inc. Other board members include representatives from education and non-profit organizations, businesses and labor unions.
 - The National Advisory Board held its second meeting on May 14, 1991. At this meeting, the Board discussed its role in promoting life-long learning as part of the President's America 2000 program.

Work-based Learning

- o The ten work-based demonstration programs mentioned in the SII *Joint Report* are nearing their project completion deadline of June 30, 1991. Of the three contracting organizations -- National Alliance of Business, Human Resource Development Institute, and WAVE Inc., (formerly 70001 Training and Employment Institute) -- two have asked for six month extensions. The Department of Labor is now beginning to collect lessons learned from these demonstration projects.

- o The Secretary of Labor has recast the long-dormant "Federal Committee on Apprenticeship" and has integrated its role into the President's overall objective of improving work force quality.
- o As a complement to the U.S. visit to Japan in June 1990, a tripartite delegation of 40 Japanese visited the U.S. West and East Coasts in early November 1990. The Delegation examined U.S. education and training practices in schools and at work sites.
- o The U.S. Department of Labor and the Japanese Ministry of Labor co-sponsored a symposium on November 7-9 1990, "Work Force Quality: Perspectives from the U.S. and Japan", with an aim to examining successful Japanese practices to prepare the work force for technologically advanced work place and to explore the applicability of these practices in the U.S.
- o The Department's Employment and Training Administration is presently compiling a symposium report which should be published in July 1991. The report will include excerpts from the symposium sessions. This report will reflect the perspectives of both American and Japanese presenters in the areas of:
 - the role of government in human resource development in Japan;
 - the role of the private sector in human resource development in Japan;
 - assessing and measuring worker skill levels, including skill certification systems; and
 - applying Japanese training practices in the U.S.

Some of the main issues discussed at the symposium include: the importance of promoting a life-long commitment to learning, through schooling and in the work place; the investment in worker skill and development undertaken by Japanese employers; the supportive role played by the Japanese central government in promoting skill development; and the role of work restructuring, job rotations, and worker empowerment in supporting flexible, high productivity manufacturing operations.

Innovations with Unemployment Insurance

- o The SII *Joint Report* noted the Department of Labor's experiments in alternative uses of unemployment insurance (UI) compensation as a means to improve worker re-employment and retraining.
- o Two types of initiatives were noted: employment bonuses for employees/employers and payment of UI benefits so that beneficiaries could start their own businesses. These demonstration projects were conducted in several States under a variety of conditions. The Department has the results from pilot projects in four States -- New Jersey, Pennsylvania, Massachusetts and Washington -- and has released its findings since the *Joint Report* was issued.

Re-employment Bonus: The New Jersey study examined whether the UI system could be used to identify displaced workers early in their unemployment and to provide them with alternative, early intervention services to accelerate their return to work. Included in this study was the use of re-employment bonuses. The Department of Labor found that bonuses, in conjunction with earlier intervention and counseling, reduced the number of weeks that claimants collected UI benefits.

Self-employment: In Massachusetts and Washington State, the Department has worked with the State employment systems to implement pilot programs that allow some UI claimants to receive their benefits in order to start their own businesses.

- In Washington, where the pilot project has been completed, almost 2000 UI claimants submitted project applications, and 451 participants eventually received lump-sum payments to start their own businesses. The payments averaged \$4,282 per person. The small businesses started were: services (53 percent); manufacturing (14 percent); retail trade (12 percent); and construction (9 percent). The Department noted with interest the relatively large number of participants who choose to start a manufacturing concern.
- In Massachusetts, where the pilot project has completed its first of three years, 250 claimants have submitted project applications, with 62 participants receiving biweekly self-employment allowance payments averaging \$529 each for the full 24 weeks that those payments were available. Like the Washington project, more than half of the businesses started were in the services.

Vocational Education Legislation

- o While not called for in the SII *Joint Report*, the President signed the five-year re-authorization of the Federal government's "Carl Perkins Vocational and Applied Technology Education Act. This legislation authorizes programs with budgets totaling \$1.6 billion in FY 1991. It eliminates many inefficient provisions of the previous law that required the Administration to make funding grants based on very rigid formulae that splintered Federal assistance into portions too small to actually benefit recipients.

U.S./JAPAN STRUCTURAL IMPEDIMENTS INITIATIVE

COMMENTS OF THE U.S. DELEGATION

on the

FIRST ANNUAL REPORT BY THE JAPANESE DELEGATION *

The Structural Impediments Initiative (SII) is aimed at addressing the underlying structural barriers to balance of payments adjustment and promoting more efficient, open, and competitive markets in Japan and the United States. The SII Joint Report in June 1990 involved far-reaching commitments by Japan to tackle structural problems, including increased public spending on infrastructure, more efficient land use policies, reform of the Japanese distribution system, actions to eliminate exclusionary business practices, actions to make the keiretsu system more open and transparent, liberalization of Japan's foreign direct investment regime, and measures to adjust price differentials between the United States and Japan. These measures, if fully implemented and extended, should result in a more open, fair and transparent Japanese economic system. They should also benefit Japanese consumers, shareholders, importers, potential homeowners and small producers.

The Government of Japan's first annual report on progress to date in implementing the commitments of the Structural Impediments Initiative demonstrates welcome progress in a number of areas. In particular, the Government of Japan's FY 1991 budgetary decisions represent a positive step towards implementing the 430 trillion yen ten-year public infrastructure investment plan. Increasing public infrastructure investment should help reduce the gap between saving and investment and facilitate a further reduction of Japan's current account imbalance. In addition, the Government of Japan has made solid progress in deregulating portions of its distribution system. The Government of Japan has also liberalized its foreign direct investment regime, improved various disclosure rules that should help make keiretsu more transparent, and increased the number of antimonopoly enforcement actions. In the area of land use, action was taken to eliminate tax preferences for agricultural land in major urban areas. Finally, in the area of pricing, the U.S. and Japan have agreed to work more closely with each other on future price surveys.

* These comments constitute solely the views of the U.S. Government on the progress to date and areas expected for future progress.

However, additional progress in all areas is necessary in order to contribute further to the goals of opening markets, reducing trade and current account imbalances, and improving the quality of life in Japan. In this regard, the results of the most recent SII Joint Price Survey show continued price disparity for comparable goods and services, with Japanese prices markedly higher. The Survey is a barometer of the successful implementation of SII commitments by the GOJ. The continued price disparity demonstrates the need for greater efforts on the full range of issues. Among areas where progress has been disappointing are exclusionary business practices and keiretsu. In particular, the Government of Japan should take additional steps to reinforce the antimonopoly enforcement regime so that it will effectively deter anticompetitive practices. In addition, substantial additional actions are needed to make keiretsu relationships more open and transparent, by, for example, addressing anticompetitive aspects of cross-shareholding, strengthening shareholders' rights, and encouraging stricter stock exchange listing requirements. Furthermore, it remains important that the Government of Japan follow through steadily on its ten year public investment plan, support a more rapid phase-in of lease law reform, and continue efforts to streamline customs clearance procedures.

Saving and Investment Patterns

A principal objective of the SII is a reduction in the current account imbalances of both Japan and the United States. Therefore, the U.S. Government welcomes the significant reduction in Japan's current account surplus in 1990 to \$36 billion, from \$57 billion in 1989, as well as the Government's re-affirmation of its commitment to work actively toward a continued reduction in the current account surplus.

A reduction in the gap between domestic investment in Japan relative to domestic savings and the size of the Japanese economy can play a key role in facilitating a further cut in the external imbalance. In particular, a higher level of public investment would contribute to this goal, while bringing Japan's public infrastructure more closely in line with that of other industrial countries.

The Japanese authorities have taken some useful steps in meeting their commitments in the Joint Report. The U.S. Government welcomes the following specific actions and commitments:

- o Adoption of the 430 trillion yen public sector infrastructure investment plan for FY1991-2000.

- o Approval of a FY1991 central government budget and actions by the government in support of a higher level of investment this fiscal year by other elements of the public sector (e.g., the Fiscal Investment and Loan Program and the local governments) aimed at achieving a level of overall public sector investment consistent with the FY1991 target implied in the ten-year plan.
- o The setting of yen values for seven of the eight new five-year sectoral plans (and a physical target for the eighth) ahead of the March 31, 1991 SII target date, with a compound annual rate of increase in such investments in excess of 7%.
- o For public investment in FY1992, the intention of the Government to focus on continued progress toward fulfillment of the objectives of the ten year plan.

These actions and commitments represent commendable steps. They could lay the basis for a significant increase in the rate of growth of public investment in Japan in the 1990s compared to the 1980s. The budgetary decisions taken so far for FY1991 will also help to reverse the long-term decline in the relationship of public investment to the size of the economy, thereby contributing importantly to further reduction in Japan's current account surplus. If public investment is to increase relative to the size of the economy, then the rate of growth of public investment must exceed the rate of growth in the Japanese economy. Should this not take place over the medium-term, the U.S. Government would appreciate the Government of Japan considering to take the needed action to ensure progress.

Firm specific budgetary decisions will have to be taken throughout the public sector, both with regard to FY1991, FY1992 and over extended periods. The central government needs to work closely within the public sector on the formulation of budgets, investment plans and implementing actions of the Fiscal Investment and Loan Fund, the local governments, and the public enterprises. In addition, it will be important that the former public enterprises fulfill their role in the overall investment effort. This is necessary if the 430 trillion yen plan target and the Government's expectation of 25 trillion yen in investment by the former public enterprises over the next ten fiscal years are to be met.

During 1991 the Government will continue to develop more fully the details of the eight new sectoral plans. As these details are developed (and other plans are about to expire and be replaced), it will be important that priority be given to improvement in infrastructure which will facilitate the importation of goods and services.

More efficient use of various forms of financing of public infrastructure investment and support for more convenient forms of consumer financing could also play a useful role in closing the gap between domestic investment and savings and reducing the external imbalance.

Land Use

It is widely recognized that land taxation and regulatory practices in Japan have restrained land supply, leading to high land prices and reduced domestic and foreign investment. In identifying structural factors restraining land use as one of the most serious domestic problems that it faces, the Government of Japan committed itself in the SII to numerous land taxation and urban policy reforms including revision of the land taxation system, revision of the land and house lease laws, and urban policy reforms. These are needed to help free up land for housing and domestic and foreign investment, lower land costs and contribute to greater import opportunities.

In the first year of the SII, the Government of Japan undertook the following reforms:

- o On March 26, 1991, the Diet approved legislation which eliminated tax deferrals on certain agricultural land, made an array of changes in the capital gains tax structure, and increased the idle land tax, to be effective in 1991 and 1992.
- o On April 24, 1991, the Diet passed legislation to enact a new land value tax of 0.3% (0.2% in the first year) to be effective January 1, 1992.
- o On March 19, 1991, draft legislation for revision of the Land and House Lease Laws was submitted to the Diet.
- o The Ministry of Construction (MOC) implemented the "System of Specified District Designated for Promoting the Utilization and Conversion of Idle Land," and the "District Plan to Promote Intensive Use of Residential Land."
- o The Ministry of Construction published a new manual and guidelines in March 1991 intended to promote more effective use of eminent domain operations.

The Government of Japan committed to making land taxation more equitable, neutral, and simple. This should promote the efficient use of land and discourage asset uses of land, such as speculation.

Although recent actions represent a step forward, they do not go far enough in reforming tax and regulatory policies which impose structural restraints on the supply of land.

Some of the tax measures move in the right direction, such as the end of exemptions and deferments on fixed assets and inheritance taxes for certain urban farmland. This should spur conversion of urban farmland to more productive uses in the near future. Other tax changes, such as the introduction of the new land value tax, take only a small first step towards better policy. The land value tax rate is too low, and exemptions too wide-ranging, for the measure to have much effect. Other tax changes could have a deleterious effect on land supply. While measures to penalize speculative land demand have been added, general capital gains tax rates have been increased, rather than reduced. New 1991 property assessments for Japan's already established property or land holding tax (the fixed assets tax) lagged farther behind market prices, so that the after-tax return on land-holding actually was increased.

In the area of regulatory reform, the Government's proposed legislation for reform of the House and Land Lease laws will not apply to existing rental contracts. Therefore, the full realization of the benefits of lease reform will be delayed for decades. Phasing in the application of the reforms to existing contracts at an earlier stage would significantly enhance their effectiveness.

In the area of urban policy reform, the "System of Specified District Designated for Promoting the Utilization and Conversion of Idle Land" and the "District Plan to Promote Intensive Use of Residential Land" represent forward steps. The Government of Japan also needs to encourage local governments to effectively use these new systems to reduce structural barriers to increased land supply. The Government of Japan has taken steps to identify idle and under-utilized central government-owned land, but needs to implement plans to put this land to better use.

The Government of Japan also needs to follow up on its commitment to review the division between Urbanization Promotion and Control areas in order to facilitate the conversion of urban farmland to more productive uses, particularly in the Tokyo, Osaka, and Nagoya regions.

Exclusionary Business Practices

The U.S. Government shares the view of the Japanese Government that maintenance and promotion of fair and free competition is an extremely important policy objective, which not only serves the interest of the consumers but also increases new market entry opportunities including those of foreign companies.

In the Joint Report, the Government of Japan stated its intention to take a number of steps that would benefit Japanese consumers and provide enhanced market opportunities for foreign and domestic firms through enhancement of the Antimonopoly Act (AMA) and its enforcement, greater transparency and fairness in administrative guidance and other government practices, encouragement of transparent and nondiscriminatory procurement procedures by private companies and facilitation of patent examination disposals including a shorter examination period. The U.S. Government appreciates the steps that the Japan Fair Trade Commission (JFTC) has taken, but is very concerned with the slow progress made by the Government of Japan in some areas.

The Government of Japan has taken the following positive steps toward implementation of the undertakings contained in the Joint Report:

- o JFTC has increased the number of formal recommendations it issued from 7 in FY 1989 to 22 in FY 1990 and assessed a record \$91 million in surcharges.
- o increased the total number of JFTC investigatory staff by 11 (7.1%) compared to FY 1990 levels.
- o the Government enacted legislation increasing the surcharge level to between 1%-6% of the sales involved in the violation, from the previous level of between 0.5%-2%.
- o increased transparency of JFTC actions by making public all decisions and surcharge orders, as well as 18 warnings in FY 1990 compared to 12 warnings in FY 1989.
- o established a permanent liaison office between the JFTC and public prosecutors to facilitate criminal prosecution of AMA violations.
- o established a JFTC study group to examine possible increases in the maximum criminal fines for AMA violations.
- o enacted legislation increasing the maximum fine for bidrigging under Sec. 96-3 of the Criminal Code to 2.5 million yen (about \$18,000) from the previous maximum level of 1 million yen (about \$7,000).

- o introduced JFTC procedures, such as the preservation of evidence for submission to the court, intended to help facilitate private damage actions for injuries caused by AMA violations.
- o increased the number of patent examiners in the Japan Patent Office (JPO) for FY 1991 by 66 persons net.
- o established procedures for using an outside patent search firm and introduced an electronic patent filing system.

Notwithstanding these positive actions, the U.S. Government is disappointed with the overall lack of progress as described in brief below. The Government of Japan has not yet strengthened sufficiently its antimonopoly enforcement regime so that it will effectively deter collusive anticompetitive practices that exclude foreign competition in the Japanese market and result in higher costs to consumers, as undertaken in the Joint Report. In particular, new mechanisms put in place for criminal enforcement have not yet been utilized, penalties are not high enough, and private remedies have not been made effective. The JFTC is making a major effort to enhance AMA enforcement using the tools available to it, but a much greater effort is also required, particularly by the Ministry of Justice, to make the changes in laws and policies necessary to "effectively deter" collusive business practices. Other relevant agencies should also take steps to ensure effective deterrence.

In the Joint Report, the Government of Japan committed to increase surcharges so that they "effectively deter" violations of the AMA. The new legislation did effect a significant percentage increase (to 6%) in the surcharge level applicable to large firms not in certain specified sectors. Even at a 6% level, however, the surcharge, which will be applied to no more than three years of sales regardless of the duration of the unlawful behavior, is unlikely to result in full disgorgement of the illegal profits obtained from the AMA violation. Thus, the new surcharge levels will not, by themselves, meet the standard the Government of Japan has itself identified of "effectively deter[ring]" AMA violations.

The new mechanism established between the JFTC and the Ministry of Justice represents what could be an important step toward implementing both agencies' newly announced policy of increased criminal prosecution of AMA violations. Nonetheless, a criminal complaint has not yet been filed with the Public Prosecutors Office pursuant to this new policy. Moreover, current criminal fines remain too low (less than 1/2 of 1% of the maximum corporate fines in the U.S. and Canada) to be an effective penalty for AMA crimes that generate large profits, particularly with respect to corporate violators. A significant

increase in criminal fines, particularly those applied to corporations, is needed to "effectively deter" AMA violations.

We welcome that the JFTC has taken administrative steps designed to facilitate private damage claims, but these actions will not be sufficient in themselves to achieve the GOJ undertaking to establish an effective antimonopoly remedy damage system. Broader initiatives are needed. We appreciate that the Ministry of Justice has committed to complete a study on the possible reduction in the filing fees for private damage actions as soon as possible. It has not yet decided to take action to reduce these fees. Nor has the Ministry of Justice agreed to study other obstacles to an effective private remedy system. Without legislative changes, including such measures as providing plaintiffs with effective means to obtain evidence needed to pursue their claims, shifting the burden of proving damages and causation, multiple damages, some form of class actions and reduced filing fees, barriers to successful pursuit of private damage remedies will continue to prevent victims of AMA violations from obtaining compensation.

Despite promised efforts to eliminate bidrigging on government-funded projects in Japan, no effective mechanism has been put in place by the Government of Japan procurement agencies to increase detection of bidrigging activities or to facilitate the transmission of evidence to, and the investigation and prosecution of such activities by, the JFTC.

The international contract notification requirements of section 6 of the AMA, which permit JFTC scrutiny of a wide range of contracts between foreign and Japanese parties, but not between purely Japanese parties, is discriminatory. This provision results in unreasonable interference in private contracts and discriminatory enforcement of Japan's antimonopoly laws. The U.S. Government has been told that the JFTC is considering certain steps to narrow the scope of application of section 6.

The JFTC has indicated its intention to publish the report of its study group on exemptions around Fall 1991. GOJ action to eliminate anticompetitive exemptions to the AMA would be a useful step in promoting greater competition in the Japanese market.

Actions by the Government of Japan to increase transparency and accountability of the government in its interaction with business have been limited. Despite numerous study groups that have addressed issues of relevance to foreign companies (e.g., the study group on surcharges, among others), to our knowledge, only a very few government agencies have included foreign representatives as members or sought presentation of foreign views in their study groups. Transparency would be greatly enhanced if the Government of Japan put into place clear

procedures to be used by all government agencies for ensuring that foreign views are heard.

In the area of administrative guidance, there are various proposals under consideration by the Government of Japan which are aimed at creating a uniform procedure for administrative actions, but there has not yet been a commitment to implement them. Because administrative reform has been proposed in the past, but not always implemented, it is not yet clear whether or not the Government of Japan will implement these proposals.

In the area of corporate procurement, the Government of Japan has taken some steps to actively promote open and nondiscriminatory corporate procurement practices of private firms as promised in the Joint Report. In this regard, MITI has conducted the first of three statistical surveys on corporate procurement, the results of which are currently being analyzed and which we expect will be released shortly. Further efforts by the Government of Japan more generally to encourage open and non-discriminatory procurement are needed. In the area of deregulation, the GOJ committed to implement the Cabinet's decision on Deregulation Policy Proposals "as soon as possible"; however, few steps have been taken.

In the Joint Report, the Government of Japan stated its intention to bring down the patent examination period (which is on average now 37 months) to 24 months within five years. The U.S. Government recognizes and appreciates that the Government of Japan has increased the net number of patent examiners and has taken other measures aimed at reducing the exit time for patents. We understand that the Government of Japan is now calculating the average patent examination period for 1990. However, in the year that has passed since the issuance of the Joint Report, it is not yet clear whether such increases in personnel and other measures have reduced the exit time in obtaining a patent in Japan.

Keiretsu Relationships

The U.S. Government believes that keiretsu relationships often tend to foster preferential group trade, anti-competitive activity, and impede foreign direct investment (FDI). In the Joint Report the Government of Japan stated it would take measures to make Keiretsu more open and transparent and to ensure that Keiretsu relationships will not hinder fair competition. The Government of Japan has undertaken the following actions towards fulfilling these commitments:

- o Several new disclosure rules aimed at revealing Keiretsu transactions and relationships were implemented.

- o A law revising the take-over bid system was enacted June 15, 1990.
- o A bill to amend the Foreign Exchange and Foreign Trade Control Law was approved by the Diet.
- o The JFTC has stated that it will commence analysis and surveys of the 6 major Keiretsu groups and 4 specific industries, including home appliances and synthetic fibers.
- o Draft Antimonopoly guidelines were released.
- o Keiretsu and FDI policy statements were issued.
- o The low interest loan facility for FDI was established and funded.

The new rules governing the foreign investment regime represent an important step toward establishing a more open environment for foreign investment. Prior notification of investments will be required only in sectors relating to national security and those covered by Japan's reservations under the OECD Code. A broad positive list of sectors exempt from prior notification will be established in which restrictions on foreign investment could occur only in situations involving national emergencies.

The previous authority to restrict investments due to adverse effects on the "smooth performance" of the economy will now be limited thereby further liberalizing the foreign direct investment regime. The positive list should be drawn as broadly as possible with provision made for periodic additions of new sectors, and the reservations under the OECD Code should be reduced and more narrowly and specifically defined.

Another area of significant progress is in the enhancement of disclosure requirements. We appreciate the effort made to ensure that the concept of "common control" was included in the related party disclosure requirements. We welcome the GOJ's recognition of the importance of making further enhancements of disclosure requirements, consistent with international harmonization. We would urge the GOJ to make further enhancements of the segmented reporting requirements.

Beyond these measures, the GOJ has not appreciably furthered the agreed goals of the SII process in the keiretsu area. In particular, other actions to make keiretsu more open and transparent have been lacking. Furthermore, we have not yet seen a wide range of measures needed to facilitate the entry of

foreign firms into Japan, and we regret the lack of willingness to address the problem of cross-shareholding. The keiretsu system remains a formidable barrier to entry into the Japanese market.

We have not seen evidence of strengthened FTC monitoring of keiretsu transactions, as was committed, or specific actions to remedy anticompetitive effects of cross-shareholding. Regarding a related commitment, the draft JFTC Antimonopoly guidelines regarding keiretsu require some further strengthening and, above all, vigorous enforcement to ensure that anticompetitive practices by keiretsu members are effectively eradicated.

Surveys of keiretsu relationships are welcome, but the selection of the city gas and shipbuilding sectors raise questions regarding the utility of the surveys. The JFTC has, however, agreed to examine new sectors and we have strong expectations that the new sectors selected will be among the following: autos, auto parts, paper, glass, computers, and specialty steel. We urge the GOJ to commence these new surveys as soon as possible.

Regarding the commitment to reexamine the Company Law, the U.S. is concerned that the study has just commenced. Nevertheless, we welcome the GOJ's reaffirmation of its commitment to examine the Company Law with a view toward enhancing shareholders' rights and disclosure requirements and simplifying the procedures for mergers and acquisitions. We further welcome the detailing of some of the elements, such as the relaxation of the requirements for mergers, facilitating the system of derivative lawsuits, and improving access to corporate financial books and records, that will be included in the review. We also hope that the GOJ will consider the need for independent and non-related party directors on corporate boards and audit committees, removing impediments to the effective use of the proxy voting system, introducing the concept of class-action lawsuits so that shareholders as a group can challenge management actions, and instituting stricter penalties for refusing eligible shareholders' access to company books and records.

We note that while revisions to the take-over bid system remove some legal impediments to the ability of foreign firms to acquire Japanese firms, other more formidable barriers -- including the high proportion of cross shareholdings and the inability to exercise preemptive rights -- remain. In line with the general commitment of the Government of Japan to "implement a wide range of policies to facilitate the entry of foreign enterprises into Japan," the U.S. Government hopes the GOJ will take measures to reduce the adverse effects of cross-shareholding, possibly through imposing stricter listing requirements and aggregating and revaluing corporate shareholdings.

Distribution System

The Government of Japan's distribution sector reforms should help reduce prices, spur consumption, and promote the flow of imports into Japan. The Government of Japan has taken a number of positive steps toward these objectives, especially on large store deregulation.

Additional efforts are needed, however, to achieve the goals Japan has set for itself in the SII -- enriching the consumer's life, improving distribution efficiency, ensuring market access, and building import infrastructure.

On the difficult process of reform of the Large-Scale Retail Store Law, the Government of Japan has made notable progress:

- o The previously open-ended coordination period for new store openings is now limited to 18 months, and the Diet has passed a bill to shorten the period further to 12 months.
- o Applications for new store openings have nearly doubled compared to last year's levels. MITI is processing these applications in a smooth and transparent manner.
- o Foreign, including American, retailers are taking advantage of new opportunities to enter Japan's market.

The U.S. Government will closely monitor the amended law, how the Government handles its large applicant caseload, and the overall impact these measures have on Japan's distribution system.

The Government of Japan has also increased public investment spending and has pledged to improve import-related physical infrastructure. The U.S. Government encourages the Government of Japan to issue periodic reports on these expenditures, documenting that sufficient funds go to import handling facilities at airports and harbors.

Japan pledged to achieve "24 hour" customs clearance in 1991 and has committed funding for a key element of this, the upgrading and expansion of its automated processing system. The U.S. Government welcomes these measures, including the Selectivity System, and the initiation of concurrent processing. The U.S. Government also looks forward to expanded use of pre-arrival processing. While there has been progress, a February 1991 "through time" survey indicated the average processing time in Japan remains longer than in the U.S. The U.S. Government urges the Government of Japan to take measures needed to cut import clearance processing times by Customs and all other concerned agencies.

Japan established an Import Board, so that foreign exporters could convey directly to the Prime Minister's Office the kinds of systemic problems they face in the Japanese marketplace.

The Japan Fair Trade Commission (JFTC) has relaxed restrictions governing the use of premium offers in marketing campaigns for 16 items. However, general and industry specific restrictions continue to impede the use of this marketing tool by foreign firms trying to expand sales in Japan.

Acting on its commitment to promote competition and expand market openness, the JFTC has drafted guidelines on Antimonopoly Act enforcement, addressing sole import distributorships, distribution and keiretsu practices. The JFTC is revising these draft guidelines after taking into account the comments of domestic and foreign parties, and will enforce the finalized guidelines strictly. The JFTC has committed that neither the guidelines nor JFTC enforcement will discriminate against foreign firms or products. JFTC enforcement of sound, non-discriminatory guidelines will help promote market access and help deter exclusionary behavior aimed at foreign firms and products.

The U.S. Government also hopes the Government of Japan will examine practices in the industrial product and wholesale distribution sectors, particularly as they affect foreign suppliers.

Pricing Mechanisms

The second U.S.-Japan Joint SII price survey reaffirmed the existence of substantially higher prices in the Japanese market. These price survey results serve as a barometer of SII reforms.

While it was not expected that the large price differentials discovered in the first joint price survey in 1989 would have declined dramatically after only one year of SII implementation, the continued very large price gap indicates the need for more energetic implementation of the full range of SII commitments.

Recognizing that changes in relative prices can be significantly related to structural matters and the success of their reform, it is important that all parties feel confident in the results of price surveys to be associated with the SII. For this reason, the Government of Japan will implement new procedures for talks with the U.S. Government regarding the design and analysis of its independent price surveys associated with the SII.

Japan/U.S. Structural Impediments Initiative
Comments of the Japanese Delegation
on the
First Annual Report by the U.S. Delegation

The Structural Impediments Initiative (SII) has been a forum of bilateral talks to identify and solve structural problems in the two countries that stand as impediments to trade and to the balance of payments adjustment with the aim of contributing to the reduction of payments imbalances. The U.S. Government, in the Final Report of the SII issued in June last year, made clear its wide ranging commitments to solve structural problems of the U.S. economy in the seven areas; i.e. Saving and Investment Patterns, Corporation Investment Activities and Supply Capacity, Corporate Behavior, Government Regulation, Research and Development, Export Promotion, and Work Force Education and Training. These commitments, if fully implemented, would contribute to the improvement of the U.S. current imbalances. We believe that these commitments should be welcome not only to the U.S. economy but also to the stable development of the world economy.

The United States Government's first annual report on progress to date in the implementation of the commitment of the Structural Impediments Initiative represents serious and positive efforts on the part of the United States Government to fulfil its undertakings in the SII Final Report of June 1990.

However, there are a number of areas in which further progress is needed with regard to the implementation of specific measures listed in the Final Report, including those requiring legislative actions.

The U.S. Government is strongly expected to make further progress in implementing the measures concerning such major areas as Saving and Investment Patterns, Corporation Investment Activities and Supply Capacity, and Research and Development. Furthermore, the U.S. Government is also expected to fully implement the measures concerning such significant issues as the encouragement of corporate behavior with long-term outlook, improvement of the export regulations and thorough adoption of the metric system in both public and private sectors.

(Note) These comments constitute solely the views of the Government of Japan on the progress to date and areas expected for further progress.

I. Saving and Investment Patterns

The GOJ commends that the Omnibus Budget Reconciliation Act of 1990 (OBRA90) enacted last November has resulted in important budgetary steps, including measures to reduce the budget deficit by around \$500 billion over a five-year period and measures to strengthen the budget process. It also commends that the FY 1992 budget submitted to the Congress by the President this February contains proposals seeking to reduce the budget deficit and to encourage private savings. Work still remains to be done, however, in light of the commitments contained in the Joint Report. The GOJ strongly hopes that the USG will continue to make efforts to achieve the goals set forth in the Joint Report.

1. Public Sector

(1) Removal of the Federal Budget Deficit

(a) In the Joint Report, the USG states that an important goal of the U.S. economic policy is to continue to reduce the U.S. current account deficit and points out that the top budget priorities are to eliminate the Federal budget deficit, in accordance with the GRH budget law, and to reform the budgeting process. It also mentions to extend the GRH law to require a balanced budget for each fiscal year thereafter. In addition, it is also targeted in the Joint Report that the budget be balanced in the FY 1996 even without counting the social security surplus in it.

It is estimated, however, in the President's FY 1992 budget that the overall consolidated budget deficit (including the social security surplus) for the FY 1991 will grow to \$318.1 billion, 5.7% of GNP. The budget will turn into surplus in FY 1996. The budget, excluding the social security surplus in FY 1996, is expected to record a deficit of \$101.9 billion. These projections are subject to assumptions on the economic situation and on the financial transactions of the Resolution Trust Corporation (RTC). In order to avoid a deferment of the fiscal year in which the budget deficit is to be eliminated, the USG should endeavor to implement

possible measures including additional ones, if necessary. The GOJ regards the USG's strong commitments to eliminate the budget deficit as a key point for the whole follow-up process. It will watch with the greatest attention developments in the U.S. budget deficit, as well as on the appropriate preparation of economic assumptions that determine the projected amounts of deficits. The GOJ is prepared to continue making suggestions.

(2) A Stronger GRH Budget Law

(a) The GOJ commends that the reform measures to close major loopholes in the GRH law, such as new constraints on entitlements, binding caps on discretionary spending and the three new sequester check-points, have been introduced since last fall and have already yielded good effects. The Budget Enforcement Act of 1990 (BEA90) stipulates that the Maximum Deficit Amounts (MDA) are to be adjusted each fiscal year according to changing economics. As such, the law does not indicate the fiscal year when the balanced budget is to be achieved, which the old GRH law did indicate. However, the President's most recent budget projects that the U.S. budgets will move into surplus in FY 1996.

(b) While caps have been introduced on discretionary expenditures to limit their total amounts, mandatory expenditures still remain without binding caps limiting their total amounts. It is necessary, however, to avoid a situation in which a process of reduction on overall consolidated budget deficits does not proceed as scheduled due to the increasing mandatory expenditures or decreasing revenues resulting from economic and other factors. It seems that a pay-as-you-go system could fall short of preventing such situation, thus necessitating to take additional measures both on expenditure and revenue sides. In this connection, there has been a suggestion, in a testimony before the House Committee on Ways and Means on May 8, 1991, to add a set of caps for mandatory programs. Such suggestion would be highly appreciated as one of possible effective measures.

2. Private Sector

(1) Improving Personal Savings Rate

(a) The personal savings rate in the U.S. has not improved after the Joint Report was issued. It stood at 4.6% in 1990, the same level as that in 1989. Taking into account the negative effects of the low savings rate on mid-term economic growth and the increased global demand for investment funds, the USG should continue to endeavor to raise the personal savings rate in the U.S. The GOJ hopes that the introduction of Family Savings Accounts and enhanced Individual Retirement Accounts, as described by the Joint Report, will be enacted.

II. Corporation Investment Activities and Supply Capacity

Enhancing the competitiveness of the U.S. industries and encouraging investment activities of private firms in the U.S. are indispensable in order to adjust the imbalance of the U.S. international payment. For these objectives the United States Government is expected to play such active roles as maintaining free flow of investment, including facilitation of investment into the U.S. The U.S. Government, inter alia, is expected to expeditiously take the following measures.

1. Antitrust Reform and Product Liability Reform

It is a positive step that the USG has repropoed the Joint Production Bill and the Product Liability Coordinating Committee Bill. However, considering the fact that the two bills are still pending, we expect that the USG will strengthen its efforts to have both of them enacted promptly.

2. Policy Toward Foreign Direct Investment

(1) It is widely known that the U.S. Government has long recognized that a free flow of investment capital across borders benefits both host and investor countries and has maintained an open foreign investment policy.

(2) The GOJ welcomes the position of U.S. Administration which has opposed the Bryant Bill requiring registration and disclosure of foreign direct investment in the U.S. and hopes that it will oppose the legislation which would not be consistent with the general U.S. policy of openness toward foreign direct investment in the U.S.

(3) In light of the above stated policy and position of the USG, the GOJ reiterates that the USG pays attention, to the extent possible, both to the need to avoid disruption of existing investments and to the score of notification in regulations or implementation of legislation. The GOJ pointed out that experience shows any level of restrictions on foreign investment inhibits beneficial and economically efficient capital flows.

III. Corporate Behavior

To adjust imbalance of the US international payments, it is essential to enhance the competitiveness of US industries. Simultaneously, increase in the budget deficit would raise capital cost and lower competitiveness of private firms. In order to make the U.S. industries competitive, it is necessary to eliminate budget deficit and, also in a business area to transfer priority from short-term profit to long-term outlook. The USG should make best efforts to induce the U.S. firms to attach the highest priority to long-term behavior.

1. Long-term Outlook

(1) The GOJ recognizes the importance of the U.S. recommendations to lower the cost of capital contained in the report, which when implemented, will facilitate capital formation and a longer-term outlook.

(2) The USG should also make improvements in an institutional area for inducing long-term corporate behaviour such as making profit reporting system of corporations less frequently than quarterly.

(3) Excessive executive compensation may have adverse effects not only on morale of the employees, but also on corporate savings. From this viewpoint, the GOJ hopes that the U.S. Administration will review treatment of executive compensation in relation with the corporate law and the tax code with a view to redressing excessive executive compensation.

2. High Leveraged Transactions

The USG is urged to continue to monitor the merger and acquisition market adequately enough to secure reasonable LBO lending practices.

IV. Government Regulation

Certain government regulations pose a structural problem which the United States faces in redressing its external imbalances. The excessive government regulations hamper the development of international trade and fair competition. To meet the goal of adjustment of the U.S. external imbalances the USG should reduce trade deficit by liberalizing export restriction.

The Government of Japan commends the U.S. Administration for the President's decision to eliminate all dual-use export licenses and re-export licenses to COCOM member countries that are currently required under Section 5 of the Export Administration Act (EAA), consistent with multilateral arrangements.

V. Research and Development

The strengthening of the U.S. long-term competitiveness is indispensable for reducing its external imbalances. One of the most important elements for this is to promote U.S. research and development in both the public and private sectors.

1. Federally-supported and Private Research and Development

The GOJ hopes that the U.S. Administration continues to oppose in principle the foreign participation provisions in Title II of the American Technology Preeminence Act of 1991.

The GOJ welcomes the USG has extended the R&E tax credit for another year, however, the GOJ expects that the USG should revise the calculation of the credit in its R&E tax credit system. The GOJ believes that this would contribute to an increase of private sector's R&E expenditure.

2. Adoption of the Metric System

It was a positive step that the USG adopted an updated "Metric Conversion Policy for Federal Agencies" providing stronger guidance for federal metric implementation.

The GOJ urged that the USG should promptly implement the following measures.

(1) The Interagency Committee on Metric Policy should develop a timetable for specific actions for the adoption of metric system. The GOJ expects that a deadline for completion of the timetable should be settled as soon as possible.

(2) The promotion of using metric system in private sector is important. The GOJ expects that the USG should take the concrete measures for that. It should be also useful to establish supply-side measures, including manufacturing of new instrument by the measuring instrument industry and introduction of manufacturing equipment. The GOJ also expects that the study in the field of private sector by the Commerce Department should be progressed intensively and smoothly, and that result should be discussed between the USG and GOJ.

At the interagency Committee on Metric Policy future schedule should be described to increase the penetration ratio in demand and supply side toward the end of September in 1992 which is the deadline of the current law.

The GOJ expects that the progress reports should describe the following points.

- present penetration ratio and future schedule of penetration ratio of Federal Government, States, and private sectors toward full implementation.
- necessary policy to fulfill the future schedule.

VI. Export Promotion

Since export promotion is directly related to the correction of the U.S. external imbalance, trade promotion efforts of the U.S. Administration are essential for the success of the talks.

In this respect, we would like to appreciate the steady implementation by the U.S. Administration of export promotion measures.

VII. Work Force Education and Training

Redressing the U.S. external imbalances would require an increase in its competitiveness. In particular, improvement in education and training will lead to the betterment in the American work force, the most fundamental factor to the maintenance of America's competitiveness. Therefore, it is necessary for the U.S. Government to continue to implement effective measures so as to meet the goals of reforms which it committed in the Joint Report of 1990. In reference to the follow-up report, a particular attention should be given to the following points.

1. Work Force Education

The development of a concrete and effective strategy in order to attain the national education goals is necessary. In this context, President Bush's initiative in launching his "America 2000" of April 18 deserves high appreciation, since it is designed to achieve those goals.

2. The New Excellence in Education Act

It is encouraging that the Administration's firm position is stated in making efforts in passage of the new education reform bill during this Congressional session (the America 2000 Excellence in Education Act of 1991). Each element of the bill is expected to provide a major pillar for the necessary educational reforms in the United States.

3. Foreign Language Education

The GOJ considers that further encouragement of Japanese language education in the United States will be effective in strengthening the basis for potentiality of U.S. exports.

4. Science and Mathematics Education

There is a high expectation for the role of the Committee on Education and Human Resources. In particular, the future directions are encouraged to be developed on the basis of the study of the current education programs the Committee is conducting in the Phase II.

5. Job Training Partnership Act

The JTPA is another pillar for the reform of the U.S. workforce education. It deserves appreciation that the USG has made clear of its stance that it would endeavour an early passage and enforcement of the bill.

6. Department of Labor Seven-Point Action Program

It is expected that the implementation of the seven-point Action Program will continue to be closely monitored and to be reported to the SII meeting.